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ABSTRACT

Fifteen modules on small business management are provided in this curriculum guide developed for postsecondary vocational instructors. Module titles are as follow: decision making steps; financing a small business; location of a small business; record systems; the balance sheet and profit and loss statement; purchasing; marketing; sales; cash flow; taxes and depreciation; insurance; management controls for small business; employer-employee relations; break-even analysis; and maximizing profit. Each module is organized into seven elements: (1) introduction; (2) behavioral objectives; (3) transition of modules (a brief summary of the previous current and following module); (4) the lesson (subject content is centered around a series of key questions related to student objectives, and each key question contains a suggested teaching strategy); (5) summary (key points); (6) unit evaluation instrument (instructions for using it and an answer key are provided); and (7) transparency masters for use in the lessons. (JH)

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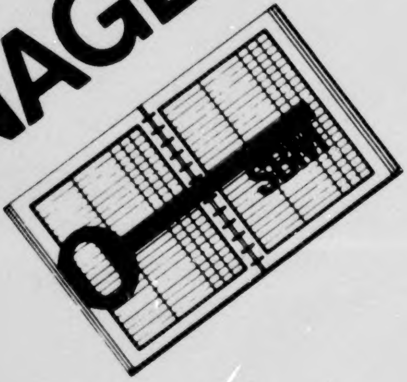
# SMALL BUSINESS MANAGEMENT



## Going-Into-Business Modules

1. Decision Making Steps
2. Financing a Small Business
3. Location of Small Business
4. Record Systems
5. The Balance Sheet and Profit & Loss Statement
6. Purchasing
7. Marketing
8. Sales
9. Cash Flow
10. Taxes and Depreciation
11. Insurance
12. Management Controls for Small Business
13. Employer-Employee Relations
14. Break-Even Analysis
15. Maximizing Profit

U.S. DEPARTMENT OF HEALTH,
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For Adult and/or Post Secondary Instruction

CE 020 015

# SMALL BUSINESS MANAGEMENT
# GOING-INTO-BUSINESS MODULES

For Adult and/or Post Secondary Instruction

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Consultant Fred Rice (and developer of first draft copy).

The instructors who tested the Going-Into-Business Modules: Swede Johnson, Larry Lundblod, David Haversten, Lovanell Kraemer and Gerald Bach.

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# INTRODUCTION

"I can provide the technical skills necessary to be a competent employer but I don't have the expertise to teach entrepreneural skills to students who want to start their own business." This is a common reply from vocational instructors. This is an understandable comment because vocational instructors are hired for their technical abilities with little if any emphasis being placed on the entrepreneural experiences of the person being hired.

This set of Going-Into-Business Modules was developed for and tested by post-secondary vocational instructors. The modules are designed to be "droppped-into" on-going technical programs or to be offered as a short-term course for adults. The modules are for use with all occupational areas and are self-contained allowing an instructor to teach them with a minimum of outside preparation. Each module will require 1½ to 2 hours to complete.

# HOW TO USE THE GOING-INTO-BUSINESS MODULES FOR ADULT INSTRUCTION

Having a set of modules available is not enough. The user must know how the authors intended the modules to be used if it is to be most effective. The brief description which follows is intended to convey these intentions.

The title of each lesson should be descriptive of the content and offer a challenge to the student. Titles may be used in promotion of the management program. Preparation of public relations materials for use with prospective students and community leaders is a good way to inform the public of the purpose and content of adult small business management education instruction.

## PART I. Introduction

Each module begins with an introduction. The introduction sets the stage for the materials to be covered in the module.

## PART II. Objectives (Behavioral)

Each module list student objectives. Users will find that these objectives are rather specific and behavioral in structure. A well written objective should specify under what conditions and to what extent a certain kind of student performance can be expected to take place. Teachers should keep in mind the ways in which attainment of the objectives will be measured in order to be able to evaluate their instruction.

## PART III. Transition of Modules

To assist the instructor and the client in grasping the sequence of instructional modules a brief summary of the previous module, the current module and the following module have been included in this part.

## PART IV. The Lesson

Each lesson begins with an attention focuser. The purpose of this device is to motivate all of the students into thinking about the lesson. The attention focuser is usually activity orientated and should be viewed as an essential part of each lesson. Hopefully, each instructor will be able to think of even better ways to focus attention on the topic than those suggested.

The subject content of each lesson is centered around a series of key questions. Each of the key questions in turn is related to the student objectives. Much of the subject content material is organized in outline form with appropriate narrative comments.

Each key question contains a suggested teaching strategy. Wherever appropriate, subject content material is put in a large type format in the appendices, with suggestions for how to use it appearing in the suggested teaching strategies. The large type format found in the appendices can be used in a duplicated handout form or as transparency master for overhead projectors.

While the material in each lesson is relatively complete and supported by appropriate appendices, the instructor must, in addition, draw from his/her knowledge of the local area. This will insure that the subject matter is related to the problems in which the class members may be involved. Data selected from area summaries should be revised each year as new summaries of the records become available.

## PART V. Summary

Each lesson should be summarized as the class session is concluded with the students. This part offers a summary of the key points in the lesson.

## PART VI. Unit Evaluation Instruments and/or Techniques

An evaluation instrument is provided for each module with appropriate instructions for using it. A key is also provided to grade the students performance.

## PART VII. Transparency Masters & Other Teaching Support Materials

All of the teaching aids referred to in the suggested teaching strategies will be found in the appendix.

Often instructors know what they want to teach, but have difficulty in deciding how to proceed. The suggested teaching activities and experiences will demonstrate procedures that have proven successful to the authors. Students will find the activities worthwhile. They will be challenged by many of the procedures to think carefully about going-into-business and to evaluate their own plans and past actions. Many modules suggest activities for the students as a method of focusing their attention on the subject for discussion and stimulating them to participate in the learning activity.

## REFERENCES For The Instructor

The instructor may wish to expand his/her knowledge on the topic of the module or add to the module. The following is a listing of references the instructor might find useful in locating relevant materials.

*How to Organize and Operate a Small Business*, 5th Edition, Clifford Baumback, Kenneth Lawyer and Pearce Kelley, Prentice-Hall, Inc., Englewood Cliffs, New Jersey

*How to Start and Manage Your Own Business*, Gardiner G. Green, 1975 McGraw-Hill Inc., New York, N.Y. 10020

"Management Checklist for a Family Business," Management Aids for Small Business Manufacturers No. 225. Free from the Small Business Administration, Washington, D.C. 20416 (or nearest SBA office)

*1977 Instructions for Form 1040*, Internal Rvenue Service, Washington, D.C. 20224

*Principles of Small Business Management*, William N. Macfarlane, McGraw-Hill Inc., New York, N.Y. 10020

*Small Business Management*, 4th Edition, H.N. Broom and Justin Longenecker, South-Western Publishing Co., Cincinnati, Ohio

*Strengthening Small Business Management*, edited by Joseph C. Schabacker, U.S. Government Printing Office, Washington, D.C. 20402

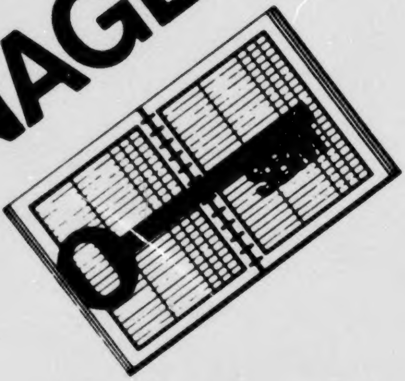
*Tax Guide for Small Business*, 1978 Edition, Publication 334, Internal Revenue Service, Washington, D.C. 20224

*Up Your Own Organization!* Revised and updated by Donald M. Dible, The Entrepreneur Press, Santa Clara, CA

*Where Have All The Woolly Mammoths Gone?* A Small Business Survival Manual, Ted S. Frost, CPA, Parker Publishing Co. Inc., West Nyack, N.Y.

*Your Federal Income Tax for Individuals*, 1978 Edition, Publication 17, Internal Revenue Service, Washington, D.C. 20224

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 1

# Decision Making Steps

For Adult and/or Post Secondary Instruction

## Module #1

## DECISION MAKING STEPS

### PART I. Introduction

The risks involved in starting a business are so large that only a fool would consider going into business without first conducting a thorough study of everything involved with the business. This unit presents a system for gathering and examining information critical to a business decision.

### PART II. Objectives (Behavioral)

A. Following a discussion of the decision making process the student will be able to identify the five decision making steps.

B. Following a discussion of preparing problem statements the student will be able to list the five "W" questions which provide an outline for the written statement.

C. Given a list of potential sources of information the student will be able to identify those which would be significant to the problem solving process.

D. Given a list of potential business types the student will be able to indicate the kind of information that would be necessary to evaluate those types which might be considered as possible alternative strategies.

### PART III. Transition of Modules

This module should be presented first since it presents a format for classifying and analyzing all of the information which will be presented in the following modules.

The balance of this program contains units on special hints and sources of information to help you put your strategy into action. It will be a continuous activity of gathering additional and more specific data and revising your plan as each additional piece of data is added. It will be a long and often difficult project, however, the more thorough you are in the planning stage the better your chances of success in the long run.

### PART IV. The Lesson

*Attention Focuser*

*A local business owner has just made you a "fantastic" offer to sell a business to you for $17,500.00. Make a list of the things you might* *wish to know about the business to help you decide how good the offer really is, assuming you have $5,000.00 to invest.*

KEY QUESTION 1. What are the steps in making a decision?

1. State the problem, objective or goal to be met.
2. Gather all possible information related to the problem or situation.
3. Analyze the information collected and form alternate strategies or solutions.
4. Test or evaluate the strategies to determine which is best.
5. Act upon the strategy which you have selected.

*Suggested Teaching Strategy*

*Use Key Question 1 transparency master from Appendix A to outline the five decision making steps. Also use the Sample Decision Making Steps from Appendix B to illustrate one way of approaching a decision. Have each student write a brief statement of their goals pertaining to "Going-Into-Business."*

KEY QUESTION 2. How does one write a problem statement?

An ancient proverb states that a problem well stated is half solved. It stands to reason that the exercise of analyzing a situation long enough to write a description of the problem and some goals to shoot for in solving the problem will help you in organizing your thinking. You might start by answering the following "W" questions:

1. Who will be involved, what skills do they possess, what additional talents will be required.
2. What are you going to do or what do you have to accomplish. Think at this point in terms of what you want to do - now how you plan to accomplish it.
3. Why do you want to get involved. Is this a life long ambition or a get rich scheme. Some honest soul searching at this point may tell you how willing you will be to stick it out when the going gets tough.

4. When can you get started? What is your timetable for gathering the fixtures, equipment, vehicles and inventory that you will need? When will you make your first sale, how soon will the customers pay for the goods or services and how long can you live before you have to start taking money out of the business?

5. Where will you locate? Think in terms of the age, income, sex and mobility of the customers you have to reach rather than getting hung-up on a particular location. Consider what may happen in the future and how you can grow, change or move to meet changing conditions!

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Discuss each of the five "W" questions. Make a transparency of the sample problem statement from Appendix C. If appropriate to the group you may assign a homework project of writing a problem statement for their particular situations.*

KEY QUESTION 3. What type of information should be collected?

You should make an effort to gather as much materials and as many opinions as you can that might have a bearing on the question. The problem is that you may not know how important each clue can be but the one you overlook may become the most important consideration of all. Gather information about:

1. Yourself - Write out a list of your assets, skills and what you can invest in the venture.

2. Your Family and Friends - What kind of help can you rely on and are they excited about your ideas?

3. The Market - How has your product or service been sold in the past? What is happening now and how is it likely to change in the future. What is the size of the market and what share of that can you expect to reach? What trends are occurring in your market and others parts of the country?

4. Market Area - In terms of geographic area, there are two basic types of markets for products and service sold. First, there are those products and services for which the customer travels to the store. Second, there are those products or services which are purchased by phone, contract or through an outside salesperson and delivered to the customer. Consequently the market area differs by the type of products and services provided.

5. Customers - Who are they, how many are there and how much money do they have to spend on your product or service? What are they buying now and why? And are they likely to change their buying habits when you start business?

6. Competition - How many are there, how strong are they, and what are they likely to do when you start your business? Visit as many as you can and talk to them about their business to help you size up the situation.

7. The Business Community - Is it progressive and does it welcome new business? What kind of help can you count on from financial institutions, utilities and service companies? Check with a banker, attorney, insurance agent, accountant, Chamber of Commerce official, marketing consultant, Internal Revenue agent, State Business Development Agency, Small Business Administration, SCORE counselor, U.S. Department of Commerce and as many other sources of information as you can find. Get as much factual data as possible and also gather opinions making sure that the sources are unbiased.

### *Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Write the seven key points under it. Discuss the type of information you would gather under each key point.*

*Give each student the "Checklist of Information ..." from Appendix D. Allow five to ten minutes for completion. Discuss concerns the student may have in this area.*

## KEY QUESTION 4. How does one go about forming alternate strategies?

The decision has been made to go into business. There are numerous types of businesses and ways of getting into business. The point here is to consider all the alternatives.

1. Start a new business
2. Buy an existing business
3. Buy a franchise
4. Manufacturing only
5. Wholesale only
6. Retail only
7. Service only
8. Mail order sales
9. Direct selling
10. Telephone sales
11. Vending machines
12. Marketing or management consultant
13. License arrangement
14. Multiple outlets or chain operation
15. Any combination of variation of the above

For each alternative and/or location that seems possible, collect as much data as possible and write a short description of what comes to mind in the way of a plan or strategy. This may allow you to immediately eliminate some alternatives due to a lack of information, or the presence of unfavorable information.

*Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. Utilize the transparency from Appendix E titled "Types of Businesses - Ways of Getting Into Business," to illustrate how all alternatives should be considered. To specifically address an alternative show and discuss the transparency from Appendix F titled "Key Question 4 - How Does One Go About Forming Alternative Strategies?"*

KEY QUESTION 5. How should you test or evaluate the alternative strategies to determine which is best?

The ideal solution here would be to develop a pro forma (or anticipated) profit and loss statement for each alternative for 3 years out into the future and arrive at a theoretical balance sheet. This would require much time and effort. However, you should study the data enough to be able to answer the following questions about each alternative. By comparing your answers to these questions with your own resources and capabilities you should arrive at the alternative which seems most appropriate to your situation.

1. How much would it cost to start the alternative and operate it for a reasonable amount of time?
2. What would your sales potential be?
3. How much profit would you make and how soon would it start?

*Suggested Teaching Strategy*

*Use the Key Question 5 transparency from Appendix G to illustrate and discuss this Key Question.*

PART V. Summary

A. The logical steps of problem solving start with stating the problem and end with acting upon the alternative chosen.

B. A problem statement should answer the who, what, why, when and where questions.

C. Alternative strategies should be evaluated based on all the information you can gather.

D. Planning for a business decision requires extra effort but should result in less risk, more profits and fewer problems in getting established.

## PART VI. Unit Evaluation Instruments and/or Techniques

Students should be given a handout of the Glossary of Terms from Part VII prior to the instruction of this module with instructions to study the terms listed. The instructor should refer to Part III, Transition of Modules to assure that this module is taught first in the series of 15 modules.

## EVALUATION INSTRUMENT

## DECISION MAKING STEPS

Name ____________________

1. The correct order of the five decision making steps is: (Number the items in proper order, 1-5)

_____ Evaluate the strategy
_____ State the problem or goal
_____ Gather all possible information
_____ Act upon the strategy
_____ Analyze information collected

2. What are the five "W" questions you should answer in stating a problem. (Circle only five)

| | | |
|---|---|---|
| Who | Wait | Where |
| Work | Why | Want |
| Win | When | What |

3. You should gather information from or about the following to help in the decision making process: (Check (✓) those you feel would help)

_____ The Market
_____ Competition
_____ Customers
_____ Yourself
_____ The Business Community

4. The kind of information you need and the type of questions that must be answered to evaluate strategies are: (Check (✓) those you feel would help)

_____ Advantages of each business type
_____ Disadvantages of each business type
_____ The sales potential of each strategy
_____ The profit picture of each strategy
_____ The cost of starting and operating each strategy

## PART VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - Key Question 1
Appendix B - Sample Decision Making Steps
Appendix C - Key Question 2
Appendix D - Checklist of Information required for the Going-Into-Business Decision
Appendix E - Types of Businesses and Ways of Getting Into Business
Appendix F - Key Question 4
Appendix G - Key Question 5
Appendix H - Evaluation Instrument Key

## GLOSSARY OF TERMS

Blue Sky - An amount added to the asking price of a business which is above the value of the land, building, equipment and merchandise being purchased. Often difficult to justify.

Direct Selling - Door to door, or business to business salespersons approach to business.

Franchise - A legal agreement where the buyer owns his/her own business but agrees to conduct it in accordance with certain methods and terms specificied by the franchiser within a given area.

Market - Wherever goods and services are bought and sold by the customer and the seller.

Mobility of Customers - Ability and willingness of customers to travel to a business location, and the constant migration or relocation of families.

Objective - A goal; something you plan to accomplish.

Pro Forma - From the Latin meaning in a prescribed form, refers to a future estimate according to an existing format.

SBA SCORE - (SBA) Small Business Administration, a Federal Public Agency designed to loan money and offer assistance to small businesses. (SCORE) Service Corps of Retired Executives, an SBA sponsored program to provide direct management assistance, counseling to small businesses requesting help.

Strategy - A plan or alternative developed for action following a thorough study of all available facts.

# APPENDIX A

## KEY QUESTION 1. WHAT ARE THE STEPS IN MAKING A DECISION?

1. STATE THE PROBLEM, OBJECTIVE OR GOAL TO BE MET.
2. GATHER ALL POSSIBLE INFORMATION.
3. ANALYZE THE INFORMATION AND FORM STRATEGIES.
4. TEST OR EVALUATE THE STRATEGIES TO DETERMINE WHICH IS BEST.
5. ACT UPON THE STRATEGY SELECTED.

# APPENDIX B

## SAMPLE
## DECISION MAKING STEPS

1. (GOAL) TO GAIN ECONOMIC INDEPENDENCE INCLUDING THE CONTINUED EDUCATION OF TWO SONS.

2. (GATHER INFORMATION) MARKET POTENTIAL, PROFIT MARGIN, MY OWN ABILITY, AVAILABLE BUSINESSES FOR PURCHASE, FINANCING, ETC.

3. (ANALYZE INFORMATION) MARKET POTENTIAL; TWO FRANCHISE FAST FOOD OPERATIONS IN THE CITY, BUT NONE NEAR THE COLLEGE CAMPUS. NO GOOD PIZZA RESTAURANT IN TOWN. POPULATION OF COLLEGE STUDENTS INCREASING ... COMPLETE DETAILED ANALYSIS OF ALL INFORMATION GATHERED UNER #2.

4. (EVALUATE) DEVELOP A PROJECTED PROFIT & LOSS STATEMENT AND BALANCE SHEET. ASK THE ADVICE OF SBA, THE BANK, THE CHAMBER OF COMMERCE, ETC. DOES THE PLAN MEET THE NEEDS STATED UNDER "GOALS"?

5. (ACT) COMPLETE BUYER-SELLER CONTRACTS FOR PURCHASE OR BUILDING OF BUSINESS, CONTACT SUPPLIERS, ADVERTISE, START HIRING, ETC.

## APPENDIX C

KEY QUESTION 2. HOW DOES ONE WRITE A PROBLEM STATEMENT?

1. WHO - MYSELF WITH 16 YEARS EXPERIENCE IN THE RESTAURANT BUSINESS PLUS MY WIFE AND TWO SONS AGE 18 AND 16.

2. WHAT - OPEN A PIZZA RESTAURANT OR FAST FOOD OPERATION.

3. WHY - TO GAIN ECONOMIC INDEPENDENCE, EARN AT LEAST $16,000 PER YEAR AND BE ABLE TO PASS IT ON TO MY SONS OR ELSE SELL IT IN 20 YEARS FOR A RETIREMENT FUND.

4. WHEN - MUST BE OPEN BY SEPTEMBER 1ST IN ORDER TO ATTRACT THE COLLEGE STUDENTS WHEN THEY COME BACK TO SCHOOL. IF WE BUILD, WE MUST START CONSTRUCTION BY JUNE 1ST OR WE COULD BUY AND REMODEL AS LATE AS AUGUST 1ST.

5. WHERE - LOCATED NEAR THE COLLEGE DORMATORIES BUT ALSO WITH EASY ACCESS FROM THE INDUSTRIAL PARK. MUST BE EASY TO FIND AND HAVE GOOD PARKING.

# APPENDIX D

## CHECKLIST OF INFORMATION REQUIRED FOR THE GOING-INTO-BUSINESS DECISION

1. Yourself: YES NO

   a. Are you the kind of person who can start a business and make it go? ____ ____
   b. Are you a self starter? ____ ____
   c. Can you lead and motivate others? ____ ____
   d. Can you make decisions even when you don't have all the facts? ____ ____
   e. Is your health and attitude good enough to permit you to work long hours? ____ ____
   f. List other personal assets and attributes that would bring success to the business ____________________

   ____________________

2. Your family and friends:

   a. Are your family and friends enthusiastic about your plan to start a business? ____ ____
   b. What special skills can you count on from your family and friends?

| Name | Special Skills or Training |
|---|---|
| | |
| | |
| | |

3. The market:

   a. Do you know the sales potential for your product or service? ____ ____
   b. What trends are occurring in the market for your product or service? ____________________

   ____________________

4. Customers:

   a. Do you know what kinds of people will want to buy what you plan to sell? ____ ____
   b. Do they need a store like yours? ____ ____
   c. What else do you know about your customers that might affect the success of your business? ____________________

   ____________________

5. Competition:

   a. What do you see as your biggest competition in your area? ____________

   ______________________________________________________________________

   ______________________________________________________________________

   ______________________________________________________________________

6. The business community:

   a. Do most businesses in the community seem to be doing well? _____ _____
   b. Do you know what kind of financial assistance you can get from your bank? _____ _____
   c. List other sources of advice that you could count on in the business community.

| Name | Information or Assistance |
|---|---|
| | |
| | |
| | |
| | |

# APPENDIX E

## TYPES OF BUSINESSES
## &
## WAYS OF GETTING INTO BUSINESS

1. START A NEW BUSINESS
2. BUY AN EXISTING BUSINESS
3. BUY A FRANCHISE
4. MANUFACTURING ONLY
5. WHOLESALE ONLY
6. RETAIL ONLY
7. SERVICE ONLY
8. MAIL ORDER SALES
9. DIRECT SELLING
10. TELEPHONE SALES
11. VENDING MACHINES
12. MARKETING OR MANAGEMENT CONSULTANT
13. LICENSE ARRANGEMENT
14. MULTIPLE OUTLETS OR CHAIN OPERATION
15. ANY COMBINATION OR VARIATION OF THE ABOVE

# APPENDIX F

KEY QUESTION 4. How does one go about forming alternative strategies?

## Starting A New Business

Advantages

- a. Freedom to do what you want
- b. Don't inherit the problems of an existing business
- c. Free to locate or build where you want

Disadvantages

- a. High degree of risk if you have no previous experience
- b. Competition may be established
- c. Long start-up time before cash starts flowing in

## Buying An Existing Business

Advantages

- a. Start with established suppliers and customers
- b. Books will show previous level of business

Disadvantages

- a. May have problems with image established by previous owner
- b. May not have freedom to expand or change location
- c. Price may be inflated by "blue sky" claimed by previous owner

## Buying A Franchise

Advantages

- a. Provide management assistance to help you get started
- b. Benefit of national or regional advertising program

Disadvantages

- a. Purchase price may be high
- b. Lack of freedom in operating the business

# APPENDIX G

## KEY QUESTION 5. HOW SHOULD YOU TEST OR EVALUATE THE STRATEGIES TO DETERMINE WHICH IS BEST?

1. HOW MUCH WOULD IT COST TO START THE ALTERNATIVE AND OPERATE IT FOR A REASONABLE AMOUNT OF TIME?
2. WHAT WOULD YOUR SALES POTENTIAL BE?
3. HOW MUCH PROFIT WOULD YOU MAKE AND HOW SOON WOULD IT START?

# APPENDIX H

## EVALUATION INSTRUMENT

## DECISION MAKING STEPS

Name Key

1. The correct order of the five decision making steps is: (Number the items in proper order, 1-5)

4 Evaluate the strategy
1 State the problem or goal
2 Gather all possible information
5 Act upon the strategy
3 Analyze information collected

2. What are the five "W" questions you should answer in stating a problem. (Circle only five)

[✓ Who]
Work
Win
Wait
[✓ Why]
[✓ When]
[✓ Where]
Want
[✓ What]

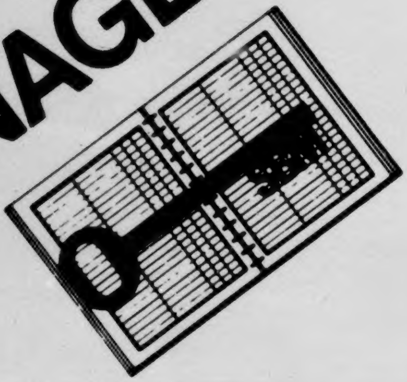
3. You should gather information from or about the following to help in the decision making process: (Check (✓) those you feel would help)

✓ The Market
✓ Competition
✓ Customers
✓ Yourself
✓ The Business Community

4. The kind of information you need and the type of questions that must be answered to evaluate strategies are: (Check (✓) those you feel would help)

✓ Advantages of each business type
✓ Disadvantages of each business type
✓ The sales potential of each strategy
✓ The profit picture of each strategy
✓ The cost of starting and operating each strategy

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 2

# Financing a Small Business

For Adult and/or Post Secondary Instruction

## Module #2

## FINANCING A SMALL BUSINESS

### PART I. Introduction

Obtaining proper financing is usually the first and largest problem for the person going into business. Even if you have unlimited funds, the time that you spend in budgeting your funds and controlling your expenses will pay good dividends. The detail of your plan and accuracy of your projections could go a long way in convincing your banker that you are a good credit risk.

### PART II. Objectives (Behavioral)

A. Following a discussion of the financial requirements of a business the student will be able to recognize start-up costs and operating expenses that must be met if a business is to succeed.

B. After a discussion of sources of business financing the student will be able to identify several sources of business capital.

C. Following a discussion of loan evaluation criteria the student will be able to demonstrate an understanding of how to make a favorable impression on a lending institution.

### PART III. Transition of Modules

The first module dealt with the collection and evaluation of data to aid in making a decision about going into business. This module deals with one of the first problems of most business owners - how to obtain and manage adequate financing. The next module will deal with finding the proper location for your business.

### PART IV. The Lesson

#### *Attention Focuser*

*The instructor will choose three class members to be owners of Arrow Company, Baker Company and Cooper Company. The rest of the class will be bankers and should receive a loan decision worksheet (from Appendix A) on which they enter the amount of money that they have in their pocket plus $100.00 which represents deposits in their bank. Each company owner is then given 2 minutes to explain to the bankers why they should be granted a loan to start a business. They may use the money in their own pocket as collateral but must then establish how much additional capital they would need and tell what they would do with it. At the end of the three presentations the bankers decide how much, if any, they will lend to each company and how much they will retain in the bank. Appoint someone to tabulate the results while the instructor reviews the the presentation to point out the difficulty of convincing a banker* *without the benefit of hard facts in the form of a plan, budget or balance sheet and a profit and loss statement. Announce the results and ask the bankers to comment on why they decided as they did.*

KEY QUESTION 1. What are the financial requirements of a small business?

The financial requirements of most small businesses fall into three categories: Start-up costs which usually require an investment by the owner or borrowed funds for a long term; operating expenses which are usually financed from income; and additional investments to fund expansion programs or changes in the business. The key to successful management, is careful planning so that needs are anticipated and money is available to meet those needs.

1. Start-up costs are those one-time costs that are required to get the business going:

    a. Cost of buying an existing business
    b. Cost of starting a business from scratch
        1) land, building and improvements
        2) equipment, furniture and supplies
    c. Franchise or license fees
    d. Initial inventory of merchandise or raw materials
    e. Insurance premiums, utility deposits, performance bonds, etc.
    f. Initial advertising, signs, display materials, etc.
    g. Operating capital

2. Operating expenses - may have to be covered by initial operating capital for the first two or three months but must be paid from operating income as the business begins to mature:

    a. Replacement of merchandise sold
    b. Financing credit sales (accounts receivable)
    c. Salary of owner
    d. Other salaries and wages
    e. Rent and utilities
    f. Taxes - sales and ½ of Social Security payment (FICA)
    g. Advertising and sales promotion
    h. Sales and delivery expense
    i. Maintenance and supplies
    j. Interest and loan repayment
    k. Insurance

3. Business expansion - as the business grows financing will be required for changes such as:
    - a. New merchandise lines
    - b. Added services
    - c. Moving to larger building or a better location
    - d. Construction of an addition to present location
    - e. Opening additional outlets
    - f. Upgrading fixtures or equipment

If these changes cannot be purchased with profits generated by the business its growth may be limited by the availability and cost of outside financing.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use transparency, from Appendix B to reinforce the major points. Reproduce the Financial Planning Worksheet from Appendix C, and have each student complete the form for a hypothetical business from Appendix D, and calculate the total financial requirements for the business.*

KEY QUESTION 2. From what sources can a business person secure finances?

There are many sources of finance open to a business owner. In comparing them you must consider the interest rates, how long you can use the money, the consequences of late repayment and the risk of the loss of financial control. The following typical sources are followed by estimates of the interest cost:

| | Cost of Borrowing |
|---|---|
| 1. Personal | |
| a. Savings or the sale of personal assets | 0-8% |
| b. Loan from relatives or friends | 0-8% |
| c. Borrowing on cash value of life insurance | 5-7% |
| 2. Loans | |
| a. Banks or finance companies | |
| 1) Short-term business loans (unsecured) | 10-14% |
| 2) Chattel mortgage on equipment (secured loan) | 8-12% |
| 3) Inventory loan or floor plan | 12-18% |
| 4) Accounts receivable financing | 15-20% |
| 5) Real estate mortgages | 9-10% |
| 6) Guaranteed loan through Small Business Aministration | 9-10% |

| | Cost of Borrowing |
|---|---|
| b. Suppliers | |
| 1) Extended line of credit (30 to 90 days) | 0% |
| 2) Delayed billing plans | 0-10% |
| 3) Consignment | 0-5% |
| c. Business Development Corporations | |

3. Equity Financing

   a. Partnership arrangement: Split profit plus loss of equity
   b. Sales of stock in corporations: Dividends plus loss of equity

4. Other Sources

| | |
|---|---|
| a. Revenue from business operations | 0-10% |
| b. Venture capitalist | 10-20% |
| c. Sale of franchises, licenses, patents, etc. | loss of control |
| d. Sale and leaseback of equipment | 8-12% |
| e. Liquidation of unneeded business assets | 0% |
| f. Sale of bonds pledging company assets as security | 7-10% |

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use transparency, from Appendix E from Part VII to reinforce the major points as you discuss them.*

KEY QUESTION 3. How should the business owner go about getting a loan from a lending institution?

Bankers are not gamblers. When they make a loan they expect every dollar, plus interest, to be paid back. The best way to get a loan is to make a presentation that will convince the banker that you know what you are doing and that he has nothing to worry about. Some of the things the banker will want to know about you are:

1. Ability to repay (The 4 C's)

   a. Capacity - does your business plan show enough income to allow you to pay off the loan in the time specified.
   b. Character - are you the type of person who can be trusted to pay off the loan no matter what happens to the business?
   c. Collateral - what items of value are you willing to pledge as security toward the loan?

   d. Capital - how much are you willing and able to invest (or risk) in the venture?

2. Evidence of managerial capabilities
   a. Make a list of your assets, both financial and personal. Include your educational background, work experience, etc.
   b. Document the history of your past successes.
   c. Include a list of previous customers, references and business contacts.

3. Prepare a written business plan - tell how much you have, how much more you need and explain what you are going to do with the money.

4. Complete financial statements
   a. Balance sheet - current and past two or three years plus what you anticipate it will be in the future (pro forma).
   b. Profit and Loss Statement - current, past and pro forma.

5. You must appear confident and healthy. You must eliminate any fears that you may not be physically able to carry out the plan.

6. Be honest and sincere. Get to know your banker so that you can build a relationship based on mutual trust.

If you do not get the loan do not give up. All is not lost, it simply means that one banker was not smart enough to see the merit in your idea or else you didn't sell it properly. Begin by asking why you were turned down. Then correct your plan, practice your approach and try another source. If there is a high risk factor involved ask your banker about a Small Business Administration loan guarantee. It won't cost you any more and it may let both the banker and you rest a lot easier.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use transparency from Appendix F. The important thing to stress here is the need for preparation. The person who goes to the bank with a half-baked idea and sketchy plan is going to get shot down every time.*

PART V. Summary

A. All new businesses require sufficient finances to cover start-up costs plus operating expenses long enough to become established.

Any changes or additions to the business will require additional financing. A written financial plan is essential to insure that enough capital is available to meet all requirements.

B. A business may be financed through personal resources, borrowing on a contractural basis, sale of part of the ownership in the business or by contacting specialized sources.

C. The key to obtaining financing is to develop a presentation which will convince the lender that you have considered all possibilities and eliminated the risk factors from your venture.

## PART VI. Unit Evaluation Instrument and/or Techniques

At the completion of the above discussion materials the instructor should have students complete the evaluation instrument on the following page.

## EVALUATION INSTRUMENT

## FINANCING A SMALL BUSINESS

Name ______________________

1. Classify each of the financial requirements in the following list by inserting the letter "S" to indicate start-up costs and the letter "O" for operating expenses.

_____ Rent

_____ Prepaid fire insurance

_____ Cash register

_____ Initial inventory of merchandise

_____ Telephone bill

_____ Damage deposit on building

_____ Down payment on truck

_____ Wages for clerk

_____ Signs

_____ Social Security Tax

2. Circle the five items which would be the best sources for obtaining capital to start a new business.

Personal Savings

Savings & Loan Company

Your Congressman

A recent college graduate

A commercial bank

A collection agency

Sale of bonds

Finance Company

Supplier

A junk dealer

3. Circle the "4 C's" that lenders consider when deciding whether to make a loan.

Collections

Character

Competition

Capital

Champagne

Capacity

Corporations

Capitalist

Collateral

Convenience

## PART VII. Transparency Masters & Other Teaching Support Material

Glossary of Terms
Appendix A - Loan Decision Sheet for the Banker Game
Appendix B - Key Question 1
Appendix C - Financial Planning Worksheet
Appendix D - Sample Case, Brown Furniture
Appendix E - Key Question 2
Appendix F - Key Question 3
Appendix G - Financial Planning Worksheet
Appendix H - Evaluation Instrument Key

## GLOSSARY OF TERMS

Accounts Receivable - Money owed to you by customers for merchandise or services they received, but did not pay for (credit).

Budgeting - An itemized listing of all estimated income and expenses for a business over a given period of time, such as a month, year, etc.

Chattel Mortgage - A mortgage on movable goods or equipment. A lending agency will loan you money on the basis of the value of your "chattel." If you do not repay the loan they may claim legal ownership of the "chattel."

Collateral - Stocks, bonds and other marketable properties (chattels) which a borrower pledges as security for a loan.

Consignment - The physical transfer of goods from a seller to another person or business who acts as a selling agent. Title of the property remains with the seller. The selling agent sells the property, takes out a selling fee, and remits the net proceeds to the seller.

Cost of Borrowing - Interest; may be compared to the rent one pays for using property. The objective of borrowing money is to use it to generate profit in excess of the cost of borrowing.

Deposit - Funds given to a bank for the purpose of establishing and maintaining a credit balance with the bank, upon which checks can be written.

Equity - The ownership right in property; that part you own if you were to sell out and pay all your debts.

Investment - The amount of money, equipment or real estate you put into and leave in a business operation.

Liquidation - To sell all your assets for cash and to pay off all debts.

Performance Bond - A bond supplied by one party to another protecting that party against loss in the event of improper performance or completion of the terms of an existing contract.

Projection - Using past records and the best sources of future trends to make forecasts of what might occur in the future with your business; may apply to both income and expenses.

Start-Up Costs - The cost of going-into-business including capital assets supplies, merchandise; usually includes all expenses that must be paid before the business begins to make a profit (income exceeds expenses).

Venture Capitalist - Provides new business start-up money.

# APPENDIX A

## Loan Decision Worksheet for

## THE BANKER GAME

### Loanable Funds

1. Money in your pocket $__________

2. Deposits held by your bank 100.00

TOTAL $__________

### Loan Decision

Arrow Company $__________

Baker Company __________

Cooper Company __________

Retained for Future Loans __________

TOTAL $__________

# APPENDIX B

## KEY QUESTION 1. WHAT ARE THE FINANCIAL REQUIREMENTS OF A SMALL BUSINESS?

1. START-UP COSTS
2. OPERATING EXPENSES
3. BUSINESS EXPANSION

# APPENDIX C

## FINANCIAL PLANNING WORKSHEET

Name ____________________

**Start-Up Costs**

Down Payment on Business, Property, Vehicles, Etc. ____________
Legal Fees, Closing Costs ____________
Licenses, Permits or Franchise Fees ____________
Fixtures & Equipment (Cash Register, Safe, Marking Equip.) ____________
Signs, Display Materials, Decorating, Lighting ____________
Deposits with Public Utilities ____________
Prepaid Insurance ____________
Initial Inventory of Merchanidse, Raw Materials or Supplies ____________
Advertising and Sales Promotion for Opening ____________
Salaries and Wages to Prepare for Opening ____________
Operating Capital ____________
Miscellaneous Expenses ____________
TOTAL Start-Up Costs ____________

**Operating Expenses** — **Monthly**

Replacement Merchandise ____________
Accounts Receivable ____________
Salary of Owner ____________
Other Salaries and Wages ____________
Rent and Utilities ____________
Taxes ____________
Advertising and Sales Promotion ____________
Sales and Delivery Expense ____________
Maintenance and Supplies ____________
Loan or Mortgage Payment ____________
Interest Expense ____________
Insurance ____________
TOTAL Operating Expenses ____________ x 3 = ____________

TOTAL Financial Requirement to Start a Business ____________
Less Owners Cash Investment ____________
Less Estimated Receipts for 3 Mos. ____________ - ____________
TOTAL Loan Required ____________

# APPENDIX D

## BROWN FURNITURE COMPANY

You have decided to start-up a furniture business. With $20,000 of your own money to invest and a $30,000 down payment on the building, land and vehicles required, it is obvious you will have need for a loan. Additional start-up costs have been estimated.

| | | | |
|---|---|---|---|
| Legal | $1,000 | Cash Register | $3,000 |
| Licenses | 250 | Prepaid Insurance | 500 |
| Signs | 1,500 | Operating Capital | 1,000 |
| Deposits | 100 | Miscellaneous | 500 |
| Advertising | 750 | | |

You will need $30,000 of initial inventory and will have to pay one months salary to your employees to help get ready for your opening.

Operating Expenses on a monthly basis will be:

| | | | |
|---|---|---|---|
| Merchandise | $3,000 | Accounts Receivable | $2,000 |
| Owners Draw | 800 | Other Salaries & Wages | 1,500 |
| Taxes | 100 | Rent & Utilities | 200 |
| Advertising | 300 | Delivery Expense | 300 |
| Maintenance | 100 | Loan Payment | 400 |
| Insurance | 100 | Interest | 200 |

You have estimated your average sales for the first three months will be $9,000 per month.

Use the FINANCIAL PLANNING WORKSHEET, Appendix C, to determine the Total Loan Requirement for your new business venture.

# APPENDIX E

KEY QUESTION 2. FROM WHAT SOURCES CAN A BUSINESS PERSON SECURE FINANCES?

1. PERSONAL
   - A. SAVINGS
   - B. RELATIVES OR FRIENDS
   - C. BORROW ON CASH VALUE OF LIFE INSURANCE

2. LOANS
   - A. BANKS OR FINANCE COMPANIES
   - B. SUPPLIERS
   - C. BUSINESS DEVELOPMENT CORPORATIONS

3. EQUITY FINANCING
   - A. PARTNERSHIP
   - B. INCORPORATION

4. OTHER

# APPENDIX F

KEY QUESTION 3. HOW SHOULD THE BUSINESS OWNER GO ABOUT GETTING A LOAN FROM A LENDING INSTITUTION?

1. ABILITY TO REPAY
   - A. CAPACITY
   - B. CHARACTER
   - C. COLLATERAL
   - D. CAPITAL

2. MANAGERIAL CAPABILITIES

3. BUSINESS PLAN

4. FINANCIAL STATEMENTS

5. CONFIDENCE

6. HONEST & SINCERE

# APPENDIX G

## FINANCIAL PLANNING WORKSHEET

Name Key

| | | | |
|---|---|---|---|
| **Start-Up Costs** | | | |
| Down Payment on Business, Property, Vehicles, Etc. | | | 30,000 |
| Legal Fees, Closing Costs | | | 1,000 |
| Licenses, Permits or Franchise Fees | | | 250 |
| Fixtures & Equipment (Cash Register, Safe, Marking Equip.) | | | 3,000 |
| Signs, Display Materials, Decorating, Lighting | | | 1,500 |
| Deposits with Public Utilities | | | 100 |
| Prepaid Insurance | | | 500 |
| Initial Inventory of Merchanidse, Raw Materials or Supplies | | | 30,000 |
| Advertising and Sales Promotion for Opening | | | 750 |
| Salaries and Wages to Prepare for Opening | | | 1,500 |
| Operating Capital | | | 1,000 |
| Miscellaneous Expenses | | | 500 |
| TOTAL Start-Up Costs | | | 70,000 |
| **Operating Expenses** | Monthly | | |
| Replacement Merchandise | 3,000 | | |
| Accounts Receivable | 2,000 | | |
| Salary of Owner | 800 | | |
| Other Salaries and Wages | 1,500 | | |
| Rent and Utilities | 200 | | |
| Taxes | 100 | | |
| Advertising and Sales Promotion | 300 | | |
| Sales and Delivery Expense | 300 | | |
| Maintenance and Supplies | 100 | | |
| Loan or Mortgage Payment | 400 | | |
| Interest Expense | 200 | | |
| Insurance | 100 | | |
| TOTAL Operating Expenses | 9,000 | x 3 = | 27,000 |
| TOTAL Financial Requirement to Start a Business | | | 97,000 |
| Less Owners Cash Investment | 20,000 | | |
| Less Estimated Receipts for 3 Mos. | 27,000 | - | 47,000 |
| TOTAL Loan Required | | | 50,000 |

# APPENDIX H

## EVALUATION INSTRUMENT

## FINANCING A SMALL BUSINESS

Name Key

1. Classify each of the financial requirements in the following list by inserting the letter "S" to indicate start-up costs and the letter "O" for operating expenses.

O Rent

S Prepaid fire insurance

S Cash register

S Initial inventory of merchandise

O Telephone bill

S Damage deposit on building

S Down payment on truck

O Wages for clerk

S Signs

O Social Security Tax

2. Circle the five items which would be the best sources for obtaining capital to start a new business.

[✓ Personal Savings]

[✓ Savings & Loan Company]

Your Congressman

A recent college graduate

[✓ A commercial bank]

A collection agency

Sale of bonds

[✓ Finance Company]

[✓ Supplier]

A junk dealer

3. Circle the "4 C's" that lenders consider when deciding whether to make a loan.

Collections

[✓ Character]

Competition

[✓ Capital]

Champagne

[✓ Capacity]

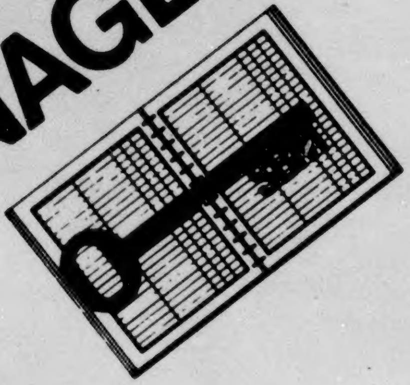
Corporations

Capitalist

[✓ Collateral]

Convenience

# SMALL BUSINESS MANAGEMENT



Going-Into-Business

Module 3

# Location of Small Business

For Adult and/or Post Secondary Instruction

## Module #3

## LOCATION OF SMALL BUSINESS

### PART I. Introduction

The location of a business is one of the most important decisions affecting the success or failure of a small business. Whether you decide on a main street location, a side street, an enclosed shopping mall, a neighborhood shopping strip or out in the country, your cost of operation and the volume of business you can expect, will differ considerably. As a general rule the higher cost of the better locations must be weighed against the added advertising cost of drawing customers to cheaper locations. If your location is too difficult to find you may have to devise some method of going to the customer, thus you must consider the cost of postage or gasoline and driving time.

### PART II. Objectives (Behavioral)

A. Following a discussion of important factors in locating a business the student will be able to determine what types of information would be most helpful in arriving at a decision of where to locate.

B. A discussion of the buy or lease question will provide the student with a framework for analyzing the advantages and disadvantages of a particular situation.

C. Shown a sample business site location comparison worksheet the student will be able to identify those factors which comprise a logical comparison of alternative sites.

### PART III. Transition of Modules

The first two modules dealt with the concept of a business and how to arrange financing for the venture. This module deals with the problem of finding and arranging for an appropriate location for the business. The next module will discuss record keeping systems and records which are required for tax and analysis purposes.

### PART IV. The Lesson

#### *Attention Focuser*

*Ed and Nancy Young started a small printing business in their garage. The business is growing and Ed would like to quit his job as a telephone repairman and run the business full time. Distribute the location map exercise sheet from Appendix A and give students 5 to 10 minutes to study the map and answer the questions. See if the class can agree on a location and then discuss the fact that without more information it is impossible to* *determine a proper location. List the answers to Question 2 on the chalkboard to illustrate the variety of information that might be helpful in choosing a location. Leave the list on the board to compare with topics covered in Key Question 1.*

KEY QUESTION 1. What factors are important in considering the best location for a small business?

1. Type of Business - What will you be doing and how important is it for your customers to be able to find you?
    - a. Retail Store - Must you rely on walk-in traffic or will customers seek you out?
    - b. Service - Do you need a fancy location or do you use a truck to call on customers?
    - c. Wholesale - Do your customers come to you or do you call on them?
    - d. Manufacturing - Is convenience to raw materials and labor more important than customers?
    - e. Direct mail, craft production, direct selling, telephone solicitation and many other types of small businesses can be started in your basement, garage or spare bedroom.

2. Income and purchasing power of the population in the area from which you hope to attract customers.

3. Parking - Is there enough for customers and employees and is there easy access to major streets and freeways.

4. Competition - Where are they located and how are they likely to react to your business?

5. Appearance - Is it consistant with your image or what will it cost to change it to meet your needs?

6. Flexibility - Can you change or enlarge the facilities to meet future needs?

7. Convenience - Is there adequate room for loading and unloading trucks, storage and workroom areas?

8. Zoning - Is the location zoned properly for your purposes and what limitations are there with utilities, trash removal, snow removal, noise or air pollution controls?

9. Security - Is the building well lighted, are the doors and windows strong and is there adequate fire and police protection.

10. Is it on the right side of the street - Look at neighboring establishments and count foot and auto traffic in the area.

11. Physical Plant - Are lights, heat, plumbing, air conditioning and appliances or machinery in good working order?

12. Cost, Rent or Lease Agreements - Shop around to compare locations and make sure you are getting the best deal.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use the transparency from Appendix B to reinforce each factor as you discuss them or list them on the chalkboard. Compare this list with the one from the Attention Focuser. You might also discuss additional factors which might be helpful being sure to point out the cost and time required to do the research. The point to stress here is that most small business decisions are made without "all the answers" and herein lies the challenge, the excitement, and the risk of business ownership.*

KEY QUESTION 2. Should a business owner buy or lease the business location?

There are so many things to consider that there is no easy answer to this question. It usually depends on:

1. How much capital do you have to invest? Do you need your cash for more critical elements of the business?

2. What are the interest rates and how willing is your banker to loan you money?

3. How likely is your business to grow or change in the future?

4. Can you decorate or change the building and will the landlord pay for it?

5. Can you obtain a lease long enough to protect you from eviction or rapidly rising rent?

6. What can you learn about proposed highway or zoning changes or other factors that might affect the location?

7. What trends can you see in the market? Is it vital and growing or is it declining to the point that customers are moving away?

8. What are the tax considerations of ownership vs leasing?

9. The owners attitudes about owning property as a hedge against inflation versus the freedom of being able to move frequently as needs change.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. This is a highly individualized question. The material presented here is not intended as the "right" answer but rather as a framework to show the student that many factors should be considered.*

KEY QUESTION 3. How do you decide which location to select?

Finding the right location is so important to the success of your business that you must approach it with a well thought-out system.

1. Prepare a list of factors that are essential to your business. Also a list of "nice" but not necessary items might be helpful.

2. Read the ads and meet with real estate brokers and building owners to find all the possible locations that might meet your criteria.

3. Drive by the locations to get an idea of the general appearance and neighborhoods so that you can eliminate the impossible locations and narrow it down to a workable number of possibilities (5 to 10).

4. Visit the most promising locations and use a check list to compare them to make sure that you collect all the right data and rate the factors fairly. Weigh the scores of factors which are critical to your particular business.

5. Return to the locations several times at various times of the day and evening to get a better feel of the location. Try to mentally put yourself in the place of your customers and ask yourself, "Would I find it convenient and enjoyable to come to this place of business?"

6. Conduct a traffic count at each location. Count the number of cars and pedestrians (by age and sex if important) that pass each location at various times during the day. If possible determine where they are going and how willing they would be to stop and patronize your business.

7. If you are still unsure ask a trusted and experienced business owner, banker, real estate appraiser or consultant to visit the locations with you to appraise the situation and offer an opinion.

8. After you have gathered and analyzed all the facts and opinions the final decision is up to you.

9. Have your attorney draw up a contract to make sure that all the promises and guarantees are in writing before you exchange any money.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use the transparency from Appendix C to emphasize the points as you cover them. After completing the discussion distribute copies of the Business Site Location Comparison Worksheet and the Site Data Sheets from Appendix D. Ask the students to read the data sheets, refer to the Location Map from Appendix A, and then complete the Comparison Worksheet in order to determine the best location.*

PART V. Summary

A. Determining the best business location requires an analysis of the type of business to be conducted and a selection of critical factors which would have bearing on its success.

B. The decision to buy or lease a business location depends on numerous factors about the business and its owners resources and attitude.

C. Choosing the specific site requires careful analysis and rating sheet to compare the various alternatives objectively.

PART VI. Unit Evaluation Instruments or Techniques

Students should be required to complete the Business Site Location Exercise either as a classroom activity or homework assignment to demonstrate their ability to evaluate the data presented and decide on the best location for a hypothetical business.

## EVALUATION INSTRUMENT

## LOCATION OF SMALL BUSINESS

Name ______________________

1. Match the "important factors" in Column B with the appropriate business type in Column A.

| Column A | | Column B |
|---|---|---|
| 1) Retail | ______ | a. Close to source of raw materials |
| 2) Service | ______ | b. Good transportation system |
| 3) Wholesale | ______ | c. Foot traffic |
| 4) Manufacturing | ______ | d. Good vehicles |

2. Indicate whether the following statements are true or false by circling T or F.

   a. The income and purchasing power of the people in the area from which you hope to attract customers is important. T F

   b. The location of your competitors will not affect the success of your business. T F

   c. The availability of parking is important to most businesses. T F

   d. Your decision of the best location for your business may be affected by rent or lease costs. T F

   e. How much capital you have to invest may determine whether you buy or rent your building. T F

   f. The fact that you can only obtain a one year (annual) lease on your building should not influence your decision to buy or rent. T F

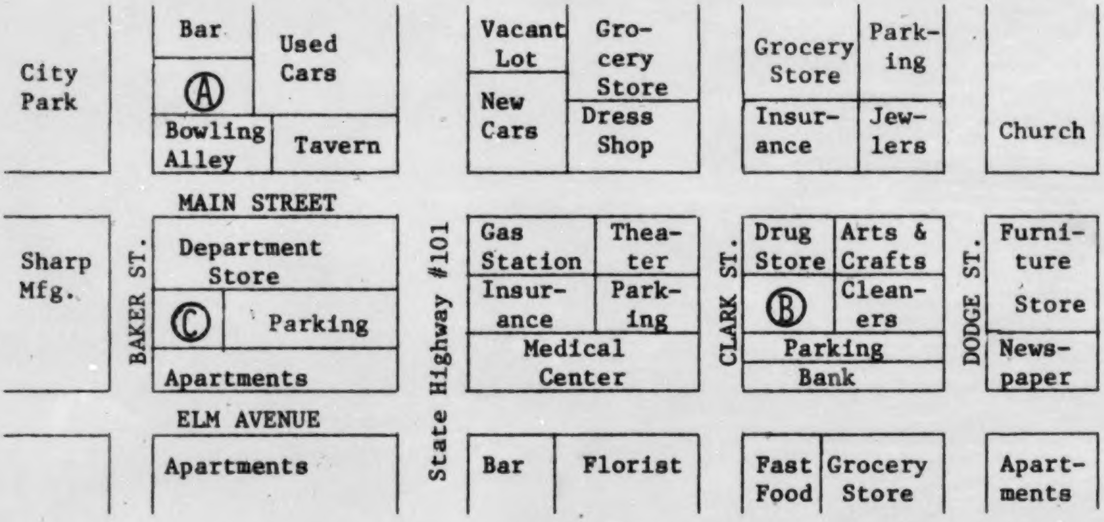
   g. A growing market trend in the area you plan to locate may influence your decision to buy or rent. T F

   h. Your attitude about owning property as a hedge against inflation might influence your decision to buy or rent. T F

3. The following map and situation will require you to use your skill in deciding which location to select. The only factors you may consider are those listed. Assume all other factors relative to location are equal.

You have decided to start a shoe store. It will be a retail operation only. You have determined you will need at least 1200 square feet for a sales area and for storage. Three buildings are available.

## The Location Map


City Park
Bar
Ⓐ
Used Cars
Bowling Alley
Tavern
Vacant Lot
New Cars
Grocery Store
Dress Shop
Grocery Store
Parking
Insurance
Jewlers
Church
MAIN STREET
Sharp Mfg.
BAKER ST.
Department Store
Ⓒ
Parking
Apartments
State Highway #101
Gas Station
Theater
Insurance
Parking
Medical Center
CLARK ST.
Drug Store
Arts & Crafts
Ⓑ
Cleaners
Parking
Bank
DODGE ST.
Furniture Store
Newspaper
ELM AVENUE
Apartments
Bar
Florist
Fast Food
Grocery Store
Apartments

Location A: 1600 square feet; rent @ $16 per square foot
Location B: 1300 square feet; rent @ $12 per square foot
Location C: 1400 square feet; rent @ $12 per square foot

## Comparison Worksheet

Rating: 5=excellent; 4=good; 3=average; 2=fair; 1=poor

| Factor | A | B | C |
|---|---|---|---|
| Square footage | | | |
| Foot traffic | | | |
| Parking | | | |
| Location of block | | | |
| Competition | | | |
| TOTAL SCORE | | | |

Which location would be best for your shoe store? A B C (Circle One)

## PART VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - Location Map Exercise Sheet & Location Map
Appendix B - Key Question 1
Appendix C - Key Question 3
Appendix D - Business Site Location Exercise Site Location Data Sheet and Comparison Worksheet
Appendix E - Business Site Location Comparison Worksheet (Suggested Key)
Appendix F - Evaluation Instrument Key

## GLOSSARY OF TERMS

Appraisal - Evaluation of a specific piece of personal or real property; usually done by a licensed appraiser.

Lease - A contract where one party (lessor) grants another party (lessee) the right to use or occupy property owned by the first party (lessor). The lease describes the rights of the owner (lessor) and the renter (lessee).

Manufacturing - The use of a raw product, components, or partially completed units to manufacture a finished or complete product; uses the value added concept.

Retail - To buy finished merchandise from a supplier and to sell that merchandise directly to the consumer; largest cost or expense item is the "cost of goods sold."

Service - Delivery or performing a task or service for a customer usually with few materials being sold; largest cost or expense item is the labor cost.

Traffic Count - An actual count of cars and pedestrians that pass by a given location; may specify type of pedestrian, time of day, and might include pedestrian interviews or surveys.

Wholesale - The middleman between the manufacturer and the retailer; buys directly from the manufacturer and sells to the retailer with no direct contact with the consumer.

Zoning - Laws or regulations concerning where businesses can locate, parking restrictions, pollution standards, trash removal, etc.

# APPENDIX A

## LOCATION MAP EXERCISE SHEET

Name ____________________

Ed and Nancy Young started a small business in their garage. The business is growing and Ed would like to quit his job as a telephone repairman and run the business full time.

1. Using the location map supplied by your instructor select the best location and insert the corresponding letter (A through E) in space number 1 below. Rank the remaining locations 2 through 5.

   1) ______

   2) ______

   3) ______

   4) ______

   5) ______

2. List the types of information that would have been helpful to you in ranking the above sites.

   1) ______________________________________________

   2) ______________________________________________

   3) ______________________________________________

   4) ______________________________________________

   5) ______________________________________________

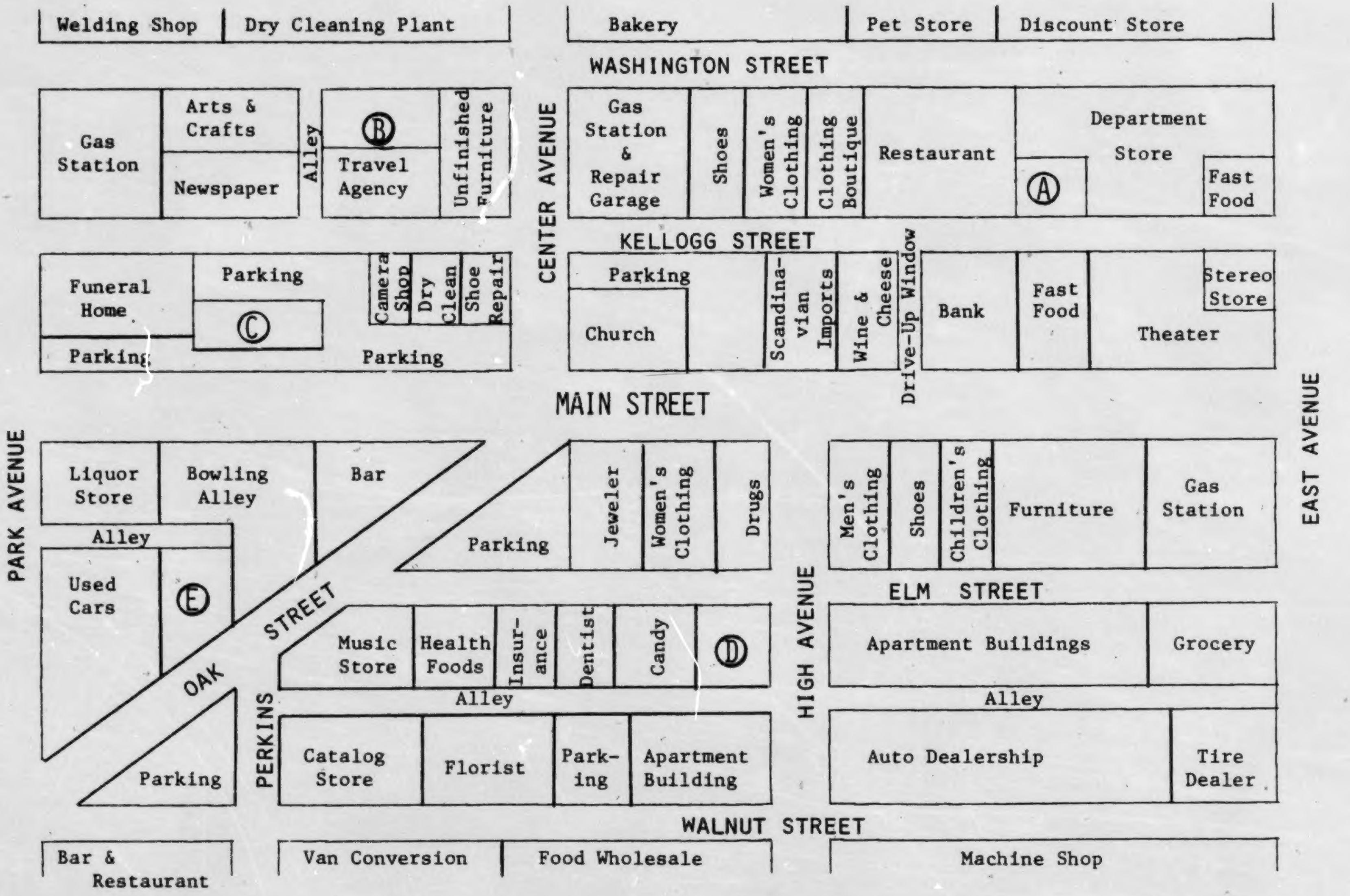
   6) ______________________________________________

   7) ______________________________________________

   8) ______________________________________________

   9) ______________________________________________

   10) ______________________________________________


Welding Shop
Dry Cleaning Plant
Bakery
Pet Store
Discount Store
WASHINGTON STREET
Gas Station
Arts & Crafts
Newspaper
Alley
B
Travel Agency
Unfinished Furniture
CENTER AVENUE
Gas Station & Repair Garage
Shoes
Women's Clothing
Clothing Boutique
Restaurant
Department Store
A
Fast Food
KELLOGG STREET
Funeral Home
Parking
C
Camera Shop
Dry Clean
Shoe Repair
Parking
Parking
Parking
Church
Scandinavian Imports
Wine & Cheese
Drive-Up Window
Bank
Fast Food
Stereo Store
Theater
MAIN STREET
EAST AVENUE
PARK AVENUE
Liquor Store
Bowling Alley
Bar
Alley
Used Cars
E
OAK STREET
Parking
Jeweler
Women's Clothing
Drugs
Men's Clothing
Shoes
Children's Clothing
Furniture
Gas Station
HIGH AVENUE
ELM STREET
Music Store
Health Foods
Insurance
Dentist
Candy
D
Apartment Buildings
Grocery
Alley
Alley
PERKINS
Parking
Catalog Store
Florist
Parking
Apartment Building
Auto Dealership
Tire Dealer
WALNUT STREET
Bar & Restaurant
Van Conversion
Food Wholesale
Machine Shop

LOCATION MAP

# APPENDIX B

KEY QUESTION 1. WHAT FACTORS ARE IMPORTANT IN CONSIDERING THE BEST LOCATION FOR A SMALL BUSINESS?

1. TYPE OF BUSINESS
2. INCOME & PURCHASING POWER OF MARKET
3. PARKING
4. COMPETITION
5. APPEARANCE
6. FLEXIBILITY
7. CONVENIENCE
8. ZONING
9. SECURITY
10. RIGHT SIDE OF THE STREET
11. PHYSICAL PLANT
12. COST OR RENT

# APPENDIX C

## KEY QUESTION 3. HOW DO YOU DECIDE WHICH LOCATION TO SELECT?

1. PREPARE A LIST OF ESSENTIAL FACTORS
2. FIND ALL POSSIBLE LOCATIONS
3. DRIVE-BY
4. VISIT & RATE MOST PROMISING LOCATIONS
5. RETURN VISITS AT DIFFERENT TIMES
6. CONDUCT TRAFFIC COUNT
7. OBTAIN AN APPRAISAL
8. MAKE YOUR DECISION
9. HAVE YOUR ATTORNEY DRAW UP A CONTRACT

# APPENDIX D

## BUSINESS SITE LOCATION EXERCISE
## SITE LOCATION DATA SHEET

Ed and Nancy Young started a small printing business in their garage. They have their offset press and have to move the business because their home is zoned residential. Also Ed would like to quit his job as a telephone repairman to run the business full time. He would like to buy some collating and binding machinery to speed up production and feels that they should go into the retail sales of office supplies and greeting cards to provide income to pay the rent on the larger quarters. They feel they need to locate in the downtown business area since walk-in traffic would be important. Parking is essential to accomodate their business and they feel they need at least 1200 square feet. A loading dock or rear access is important since they will be receiving large shipments of paper in cartons and on skids. They have $4,000 to invest and could borrow up to $10,000 from the bank. The new machinery will cost $1,200, the inventory will cost about $8,600 and about $1,000 will be needed for signs, display shelves and sales counter.

They have narrowed their selection to 5 locations. All have adequate electrical, plumbing, heat and air conditioning and rest room facilities. Locations A, B and D have good display windows. C and E need repainting and C has old carpeting that would have to be replaced. The newspaper office sells limited office supplies, the drug store sells greeting cards and the department store sells both office supplies and greeting cards.

Location A - 1000 sq. ft. - Monthly rent is $150.00 with deposit of $150.00. It has good foot traffic especially around noon because of the restaurants, however the street is quiet after 3 p.m. when the bank closes. Parking is limited and deliveries must go through the front door.

Location B - 1800 sq. ft. - Monthly rent is $195.00 with deposit of $100.00. It has limited foot traffic but some on street parking and a parking lot with access through the alley. There is a side door for deliveries.

Location C - 1600 sq. ft. - Owner wants to sell for $3,000 down and $100 per month payments. It has good parking except during funerals and the foot traffic is limited except for people going to the bowling alley.

Location D - 1400 sq. ft. - Monthly rent is $250.00 with a 5 year lease. Excellent foot traffic. It has a loading dock in the alley and display windows on two sides.

Location E - 1300 sq. ft. - Monthly rent is $100.00 with a deposit of $250.00. It has a brick front with glass doors and small windows. It had been a second hand clothing store but the owner was robbed twice and decided to quit the business. Good parking but little foot traffic except for bowlers and bar customers. Has a rear door but the alley is narrow and frequently blocked with trucks.

## BUSINESS SITE LOCATION COMPARISON WORKSHEET

Name ____________________

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Area (sq. ft.) | | | | | |
| Deposit or down payment required | | | | | |
| Annual rent or mortgage payment | | | | | |
| Annual cost per sq. ft. | | | | | |

Rate the following factors: 5 = excellent; 4 = good; 3 = average; 2 = fair; 1 = poor

| | *Weighting | A | B | C | D | E |
|---|---|---|---|---|---|---|
| Foot traffic | | | | | | |
| Auto traffic | | | | | | |
| Parking | | | | | | |
| Side of street | | | | | | |
| Location of block | | | | | | |
| Competition, distance from adjacent stores - compatability | | | | | | |
| Visability of signs | | | | | | |
| Display windows | | | | | | |
| Entrance | | | | | | |
| Interior condition | | | | | | |
| Lights and electrical outlets | | | | | | |
| Floor surface | | | | | | |
| Heat & air conditioning | | | | | | |
| Rest room facilities | | | | | | |
| Office space | | | | | | |
| Workroom & storage | | | | | | |
| Loading dock & access | | | | | | |
| Security | | | | | | |
| Fire and police protection | | | | | | |
| Local business climate | | | | | | |
| Provision for expansion | | | | | | |
| TOTAL SCORE | XXXXXX | | | | | |

*Note: If certain factors are more critical to your business, multiply scores by a factor of 2 or 3.

# APPENDIX E

## BUSINESS SITE LOCATION COMPARISON WORKSHEET

Name Key

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Area (sq. ft.) | 1000 | 1800 | 1600 | 1400 | 1300 |
| Deposit or down payment required | 150 | 100 | 3000 | 0 | 250 |
| Annual rent or mortgage payment | 1800 | 2340 | 1200 | 3000 | 1200 |
| Annual cost per sq. ft. | 1.80 | 1.30 | 7.50 | 214 | .92 |

Rate the following factors: 5 = excellent; 4 = good; 3 = average; 2 = fair; 1 = poor

| | *Weighting | A | B | C | D | E |
|---|---|---|---|---|---|---|
| Foot traffic | 3 | 12 | 3 | 3 | 15 | 3 |
| Auto traffic | | | | | | |
| Parking | 3 | 3 | 9 | 12 | 3 | 12 |
| Side of street | | | | | | |
| Location of block | | 4 | 3 | 3 | 3 | 1 |
| Competition, distance from adjacent stores - compatability | | 1 | 3 | 3 | 3 | 1 |
| Visability of signs | | | | | | |
| Display windows | | 4 | 4 | 1 | 4 | 1 |
| Entrance | | | | | | |
| Interior condition | | | | | | |
| Lights and electrical outlets | | | | | | |
| Floor surface | | 4 | 4 | 1 | 4 | 4 |
| Heat & air conditioning | | | | | | |
| Rest room facilities | | | | | | |
| Office space | | | | | | |
| Workroom & storage | | | | | | |
| Loading dock & access | 2 | 2 | 2 | 2 | 10 | 4 |
| Security | | 4 | 4 | 4 | 4 | 1 |
| Fire and police protection | | 4 | 4 | 4 | 4 | 1 |
| Local business climate | | | | | | |
| Provision for expansion | | | | | | |
| TOTAL SCORE | XXXXXX | 38 | 36 | 33 | 50 | 28 |

*Note: If certain factors are more critical to your business, multiply scores by a factor of 2 or 3.

# APPENDIX F

## EVALUATION INSTRUMENT

## LOCATION OF SMALL BUSINESS

Name Key

. Match the "important factors" in Column B with the appropriate business type in Column A.

| Column A | | Column B |
|---|---|---|
| 1) Retail | c | a. Close to source of raw materials |
| 2) Service | d | b. Good transportation system |
| 3) Wholesale | b | c. Foot traffic |
| 4) Manufacturing | a | d. Good vehicles |

2. Indicate whether the following statements are true or false by circling T or F.

   a. The income and purchasing power of the people in the area from which you hope to attract customers is important. [✓ T] F

   b. The location of your competitors will not affect the success of your business. T [✓ F]

   c. The availability of parking is important to most businesses. [✓ T] F

   d. Your decision of the best location for your business may be affected by rent or lease costs. [✓ T] F

   e. How much capital you have to invest may determine whether you buy or rent your building. [✓ T] F

   f. The fact that you can only obtain a one year (annual) lease on your building should not influence your decision to buy or rent. T [✓ F]

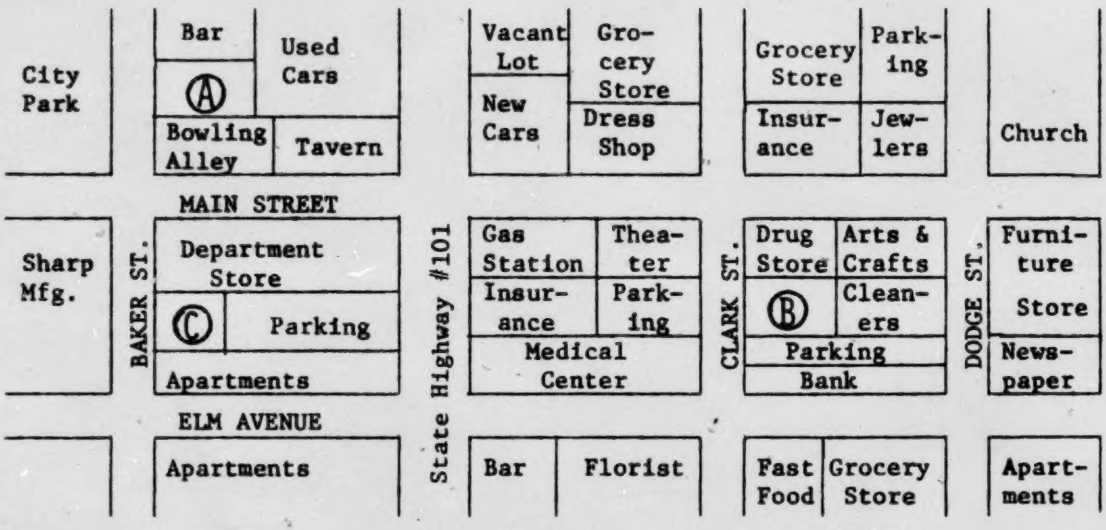
   g. A growing market trend in the area you plan to locate may influence your decision to buy or rent. [✓ T] F

   h. Your attitude about owning property as a hedge against inflation might influence your decision to buy or rent. [✓ T] F

3. The following map and situation will require you to use your skill in deciding which location to select. The only factors you may consider are those listed. Assume all other factors relative to location are equal.

You have decided to start a shoe store. It will be a retail operation only. You have determined you will need at least 1200 square feet for a sales area and for storage. Three buildings are available.

The Location Map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Location A: 1600 square feet; rent @ $16 per square foot
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Location C: 1400 square feet; rent @ $12 per square foot

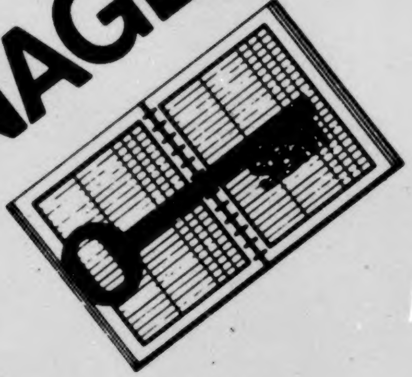
Comparison Worksheet

Rating: 5=excellent; 4=good; 3=average; 2=fair; 1=poor

| Factor | A | B | C |
|---|---|---|---|
| Square footage | 3 | 5 | 5 |
| Foot traffic | 2 | 5 | 2 |
| Parking | 2 | 5 | 4 |
| Location of block | 1 | 5 | 2 |
| Competition | 2 | 5 | 1 |
| TOTAL SCORE | 10 | 25 | 14 |

Which location would be best for your shoe store? A [✓ B] C (Circle One)

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 4

# Record Systems

For Adult and/or Post Secondary Instruction

## Module #4

## RECORD SYSTEMS

### PART I. Introduction

The maintenance of accurate records is one of the most critical functions of the business owner. A recent study of business failures disclosed that over 90 percent of the unsuccessful firms failed to keep adequate records or failed to use the records kept. Many cases have been cited where the business owners didn't even know they were out of business until their checks started to bounce.

Who actually keeps the records is not important. What is important is that they are accurate and current and that the owner understands what they disclose.

### PART II. Objectives (Behavioral)

A. After a discussion of the importance of business records the student will be able to show why good record systems are essential to the success of a business.

B. Given a list of 13 essential elements of a record keeping system the student will complete an exercise to demonstrate an understanding of how records can help the business owner.

C. Following a discussion of who should be responsible for maintaining the record system the student will be able to show several methods for completing and controlling the work.

D. Following a discussion of single and double-entry bookkeeping systems the student will be able to state the advantages and disadvantages of each system.

### PART III. Transition of Modules

Module 3 covered the important factors to consider when determining the best location for a business. This lesson deals with the need for and how to set up a record keeping system. The next module will deal with the end results of a good record system - the financial reports that form the basis for business decisions.

### PART IV. The Lesson

#### Attention Focuser

*Ask your students to take out a piece of paper and write the answers to the following questions, from memory (assure them that they will not have to disclose their answers).*

1. *What is your present check book balance?*
2. *How much did you pay "to boot" for your present car?*
3. *What was your average monthly phone bill last year?*
4. *How much money do others owe you?*
5. *When is your next insurance premium due?*

*Ask if any were able to answer even 1 or 2 of these questions with confidence. The point to make is that running a business often requires instant access to a variety of data. If you don't have the information or can't get it in a reasonable time you might find yourself in big trouble.*

KEY QUESTION 1. Why are records important to the operation of a business?

1. Governmental Requirements - Federal, State and local governments have the right to subpeona your records and may even padlock your doors until you can prove what you are up to. The IRS says:

> Everyone engaged in a business is required to maintain records that will enable them to prepare complete and accurate returns and insure that they pay only their proper tax.
>
> The law does not require any particular kind of records. You may choose any system suited to the purpose and nature of your business that will clearly reflect income on the basis of an annual accounting period. Regardless of your bookkeeping system, your permanent books of account or records (including inventories) must clearly establish not only your gross income, but also your deductions and credits. This means you must maintain in addition to your permanent books of account or records such other records and data as may be required to support the entries on your records and tax or information returns. Paid bills, cancelled checks, etc. that substantiate entries in your records should be filed in an orderly manner and stored in a safe place.[1]

The important fact to remember is that the burden of proof is on you to prove that you are innocent of suspected wrong-doing or fraud.

---

[1] IRS Publication 583 Recordkeeping for Small Business, 1976 Edition, Page 2.

2. Historic Records - Your books will tell you where you have been and will give you a basis for comparing specific time periods in the past.

3. Creditor Requirements - Your bank or loan guaranteeing agencies, such as the Small Business Administration, may require periodic reports to determine how you are doing and whether you are worthy of continued or expanded credit.

4. Suppliers - Or franchise holders may require you to maintain specific records to justify lines of credit, commission payments etc.

5. A Basis for Management Decisions - Anytime that you get involved in planning, forecasting or changing the nature of your business you will need records of past accomplishments so that you know where you are starting from.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard or use the transparency master from Appendix A to emphasize the major points.*

KEY QUESTION 2. What are the basic elements of a good record system?

Every business will have specific needs depending on what they are doing but most will require the following:

1. A Business Checking Account - Cancelled checks are your best proof of business disbursements. Also, if you deposit your business receipts intact each day the bank will then have a duplicate set of records in case your records get burned or lost.

2. Sales Records - Whether you use a cash register or hand written multi-copy sales slips you should make sure that you have a system that will allow you to classify your sales transactions by department or merchandise line, salesperson (for evaluation or commission payment), taxable vs non-tax items and cash sales vs charge sales. In some cases you might even want to record markups, discounts, or the gross profit on each sale, and be able to pull out such things as transportation, warranty work, service charges, etc.

3. Cash Receipts - The cash taken in each day will be a combination of that days cash sales plus payment for prior

sales (charges), deposits on future sales (lay-by or special orders) and miscellaneous income such as rental income, interest income, commissions, loans or an increase in the owners investment. You should design a daily summary of cash receipts form to be completed and stapled to your sales slips or register tape for each day to back up your bank deposit.

4. Cash Disbursements - Should be entered in a journal with sufficient columns to categorize and total your major expense classifications.

5. Accounts Receivable - For each customer to whom you extend credit you should keep a separate card on which you post each charge and payment transactions along with the date and a running balance due. These should be posted from your sales slips daily so that you always know how much the customer owes and so you don't enter the payment before you enter the charge.

6. Accounts Payable - Maintain a manila folder for each account that sells to you on credit. File all your credit memos, orders, shipping papers and statements in the file so that you can verify all amounts when it's time to pay your bills.

7. Record of Business Assets - Keep a file on each major item in your business and keep such things as purchase or title documents, warranty or guarantee statements, repair records.

8. Depreciation Schedule - Those capital assets used to produce income may be depreciated (expenses) over the normal useful life of the item. In order to calculate the monthly amount you must know the purchase price of the item, its normal life, the estimated salvage value at the end of the normal life. That amount is then accumulated for each month that you own the item and written off against federal taxes.

9. Insurance Records - Your business may have several different types of insurance policies. These should be kept in a safe place but you should also make a list of the policy members, coverages, and premium due dates. This list should be reviewed at least once each year with your insurance agent.

10. Employee Compensation Records - For each employee maintain a file of the application form, W-2 withholdings statement, medical records, insurance forms, emergency phone numbers etc. Payroll records are extremely important. You should have each hourly employee fill out a time card to verify your compliance with minimum wage laws, overtime requirements, etc. You should also maintain a record sheet for

each employee showing the weekly hours worked, gross pay, deductions for state and federal income tax, FICA withholdings and the net pay. In addition the employee must be given this information. Most business checkbooks include an extra stub or carbon copy for the employee to keep. Your payroll record should be setup so you can figure quarterly payroll totals for reporting purposes.

11. Inventory Control - Depending on the type of business, you are going to need some type of control system to keep track of your merchandise and equipment. Keep in mind that the cost and time of maintaining the system should not outweigh the potential for loss. A good system should:

    a. Prevent, reduce or at least record losses.
    b. Assist in buying decisions by showing the fast moving and out-of-stock items.
    c. Help in planning sales events by showing amounts and acquisition dates of overstocks.
    d. Keep track of customer owned or consignment merchandise.
    e. Provide periodic totals of merchandise between physical inventories.

12. Bank Account Reconciliation - Your bank will provide a monthly listing of deposits, checks cashed and the remaining balance of your account, this should be compared with your records to detect errors, record bank charges and locate any "lost" checks.

13. Petty Cash Account - In most businesses the owner will have occasional small disbursements that are simply paid in cash than by writing a check. A check may be written to petty cash and the money retained in a separate envelope, however all expenditures should be recorded and receipts or notations kept to show where the money went.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard and list each item as you discuss it or use the transparency master from Appendix B. Do not spend too much time on any particular point since there is considerable material to cover. This list is intended as an overview to point out the intricacy of a complete system. Any good accounting text can be referred to a student who is concerned about particular systems and how they would apply to a particular business. It would be helpful to show examples of standardized recordkeeping systems such as the Dome Simplified Weekly Bookkeeping Record #600 or Ideal System: Merchants Bookkeeping & Tax Record.*

KEY QUESTION 3. Who should maintain the business records?

In the initial stages of the business, the owner should take charge of maintaining the records. You may wish to have an accountant help you setup the books but the experience of "doing the books" will:

1. Give you a feel for the importance of records and show you how they can help you run your business.
2. Provide a first hand look at how things are going.
3. Help you determine what parts of the system can be delegated to someone else.
4. Give you the experience to teach someone else how to do the job.

As the business grows there will be more demands on your time and more profitable things for you to do than keeping records. At that time you have several alternatives:

1. Train an employee or relative to take over and maintain parts of the system.
2. Hire a free lance bookkeeping service - a person who keeps books for a number of other small businesses.
3. Engage a public accounting firm. It will cost more but a good accountant can often save you more than his/her fee. And his/her audited reports will carry more weight with your banker and the I.R.S.

In any event you will probably want to maintain control of some of the more vital records such as signing checks, reviewing sales contracts and checking merchandise shipments for damage or shortages. You will also want to spot check your monthly statements for accuracy. Finally, make sure that you are getting good tax advice and that you are properly documenting all transactions to comply with state and federal tax requirements.

There are numerous simplified accounting systems available which should help the new business owner get started and keep things under control until the need arises for more specialized set of books.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use the transparency master from Appendix C to emphasize the main points. Your students should be made aware that recordkeeping is an essential function of any business.*

*Whether they do the work or delegate it to someone else, they should remain completely aware of what is going on at all times or they are doomed to failure.*

KEY QUESTION 4. What are the differences between single-entry and double-entry bookkeeping systems.

1. Single-entry bookkeeping is a simplified system that usually concentrates on the flow of income and expense and is adequate for tax purposes. Some points to consider are:

    a. Many simplified systems are available at stationary or office supply stores at a low cost.
    b. The systems can be maintained by those with little or no formal education in accounting.
    c. Less time is required because each item is entered only once.
    d. Errors are more difficult to find because of the lack of internal controls.
    e. Losses of money and merchandise are more difficult to trace.
    f. Subsidiary systems may be required to keep track of the various parts of the business.

2. Double-entry systems are more complicated and use journals for original entries. Totals are then posted to ledger accounts which are setup to cover all the income, expense, asset, liability and net worth of the business. Some points to consider:

    a. The system is more complicated and requires a highly skilled individual to setup and maintain the system.
    b. Errors and losses can be quickly spotted because the entire business is controlled by the system and the debts and credits of each account must balance out.
    c. Much more management information is provided since, daily or monthly comparisons can be made for any account item in the business.
    d. The larger number of entries make room for more errors but the system is designed so that errors can be detected and traced back to the source.

### *Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. The information presented here is mainly to point out that their are two types of systems available* *and that each has advantages in specific situations. Most businesses will start with the single entry system and graduate to the double-entry as the business grows in size, complexity, need for more management data and the income to support the more complex system. Utilize Appendix D and E to show basic illustrations of both systems.*

PART V. Summary

A. Aside from the requirements of the government and your creditors, the keeping of accurate records on your business will help make you a better manager.

B. A good system is made up of many elements designed to pull all the business data together for historic analysis and decision making purposes.

C. The owner of the business is responsible for the accuracy of the records even though someone else does the actual work.

D. The business owner must weigh the advantages and disadvantages of single and double-entry systems to determine which is appropriate for that particular business.

PART VI. Unit Evaluation Instruments and/or Techniques

After the presentation of the above material students should complete the evaluation instrument on the following page either as a classroom assignment or as homework to demonstrate their comprehension of the lesson material as presented.

## EVALUATION INSTRUMENT

## RECORD SYSTEMS

Name ____________________

1. Indicate whether the following questions are true or false by circling the appropriate letter.

   a. Your records are your business and the government has no right to question what you do. T F

   b. Accurate records show a history of how successful the business has been. T F

   c. Your banker may want to see your books before deciding whether to loan you more money. T F

   d. Franchise holders may be required to keep specific types of records to satisfy their franchise agreement. T F

   e. Most good business owners develop a sense about business decisions so that they do not need to rely on business records. T F

2. Jack Garden owns a music store selling instruments, sheet music and records. His cash register contained the usual $50.00 cash fund at the start of business on May 12th. At the end of the day, his cash register tape showed $745.00 total sales for the day including $286.00 in charge sales rung into the register. He received a $50.00 down payment and a check for $200.00 to apply to an open account. At the end of the day his register contained $15.00 in coins, $317.00 in bills, $375.00 in checks and a paid out slip for $4.00 for the newspaper. Complete the following:

The Music Garden

Daily Cash and Sales Summary For ____________________

Cash Sales ____________
Credit Sales ____________
Total Sales ____________

Cash on Hand

Coins ____________
Bills ____________
Checks ____________

Total ____________
Less Beginning Cash Fund ____________

Total To Be Accounted For ____________

Receipts

Cash Sales ____________
Received on Account ____________
Misc. Income ____________

Total Income ____________
Less Cash Paid Out ____________
Total ____________
Less Beginning Cash Fund ____________

Total to Balance ____________

Cash Over ____________
Cash Under ____________

3. Select the best alternative to complete the following sentence and indicate your answer by circling the appropriate letter.

   When starting your business the responsibility for keeping records should be:

   a. turned over to a public accounting firm.

   b. delegated to one of your lower paid employees to save money.

   c. maintained by the owner so he can tell what systems are needed.

   d. ignored because the IRS does not have time to be concerned with small business.

4. Indicate whether the following statements pertain to single-entry systems by inserting a "1" or double-entry systems by inserting a "2" in the space provided.

   ______ Debits must equal credits

   ______ No experience required

   ______ Profit and loss orientation

   ______ Difficult to isolate errors

   ______ Low cost

   ______ Balance sheet orientation

## PART VII. Transparency Masters & Other Teaching Support Material

Glossary of Terms
Appendix A - Key Question 1
Appendix B - Key Question 2
Appendix C - Key Question 3
Appendix D - Single Entry
Appendix E - Double Entry
Appendix F - Evaluation Instrument Key

## GLOSSARY OF TERMS

Accounting Period - The 12 month business period upon which you compute profit or loss and pay taxes; may be other than the calendar year.

Bank Reconciliation - Getting your records to compare with the banks record of deposits and withdrawals.

Boot - The extra cash paid to purchase an item, above the value of a trade-in.

Compensation - Funds paid out for work performed; wages.

Creditor - One who is due money from another.

Disbursements - Funds paid out.

Double-Entry - A bookkeeping system utilizing debit and credit entries for all transactions; a decrease or increase in one account must be matched by an offsetting increase or decrease in another account allowing for an absolute accuracy check.

Receipts - Funds taken in.

Single-Entry - A bookkeeping system where transactions are recorded only once; lacks an absolute accuracy check.

Subpeona - A legal, written document requiring a person to appear in court to give testimony, or to require that certain evidence or records be submitted.

Subsidiary - Secondary business records which support or expand the primary records.

# APPENDIX A

## KEY QUESTION 1. WHY ARE RECORDS IMPORTANT TO THE OPERATION OF A BUSINESS?

1. Government Requirements
2. Historic Records
3. Creditor Requirements
4. Supplier Requirements
5. A Basis for Management Decisions

# APPENDIX B

## KEY QUESTION 2. WHAT ARE THE BASIC ELEMENTS OF A GOOD RECORD SYSTEM?

1. BUSINESS CHECKING ACCOUNT
2. SALES RECORDS
3. CASH RECEIPTS
4. CASH DISBURSEMENTS JOURNAL
5. ACCOUNTS RECEIVABLE
6. ACCOUNTS PAYABLE
7. RECORD OF BUSINESS ASSETS
8. DEPRECIATION SCHEDULE
9. INSURANCE RECORDS
10. EMPLOYEE COMPENSATION RECORDS
11. INVENTORY CONTROL
12. BANK ACCOUNT RECONCILIATION
13. PETTY CASH ACCOUNT

# APPENDIX C

## KEY QUESTION 3. WHO SHOULD MAINTAIN THE BUSINESS RECORDS?

1. KEEP THE RECORDS YOURSELF

2. TRAIN AN EMPLOYEE OR RELATIVE

3. HIRE A BOOKKEEPING SERVICE

4. ENGAGE A PUBLIC ACCOUNTING FIRM

# APPENDIX D

## SINGLE ENTRY

SALES AND INCOME CONTROL MONTH OF July 19

| DATE | DAY | TOTAL SALES | | CHARGE SALES | | CASH SALES | | REC'D ON ACCOUNT | | DISC. OR ADJ. | | TOTAL NET CASH | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Mon | 110 | 30 | 50 | 00 | 60 | 30 | 98 | 00 | | | 158 | 30 |
| 2 | Tues | 151 | 50 | 51 | 50 | 100 | 00 | 147 | 00 | | | 247 | 00 |
| 3 | Wed | 153 | 00 | | | 153 | 00 | | | | | 153 | 00 |

MONTH OF July 19

PAYMENTS FOR RESALE MERCHANDISE, MATERIALS OR SERVICE

| DATE | CASH OR CHECK # | PAID TO | | | | |
|---|---|---|---|---|---|---|
| 2 | 1448 | Met. Co. | | | 30 | 00 |
| 5 | 1457 | A.B.C. Parts | | | 143 | 25 |
| 6 | 1460 | E.Z. Parts | | | 364 | 40 |
| 7 | 1461 | A. Company | | | 543 | 80 |
| 8 | 1462 | D.D. Parts | | | 197 | 75 |
| 9 | Cash | J. Jones + Sons | | | 41 | 95 |
| 10 | 1463 | Simplicity Parts | | | 234 | 23 |

## DOUBLE ENTRY

| | | | | | | | (SALES) | | |
|---|---|---|---|---|---|---|---|---|---|
| | DATE | TICKET # | DESCRIPTION | CASH 101 DR | ACCT. REC. 108 DR | ACCT. REC. 108 CR | BEDROOM 401-1 CR | KITCHEN 411-3 CR | SALE TAX 244 CR |
| 1 | 1-2 | | S. Smith | 43 - | | 43 - | | | |
| 2 | 1-2 | | S. Oman | 802 - | | 802 - | | | |
| 3 | 1-4 | | Cash | 1759 - | | | | 1691 - | 68 - |
| 4 | 1-4 | | B. Stage | | 295 - | | | 284 - | 11 - |
| 5 | 1-14 | | S. Furlong | | 390 - | | 375 - | | 15 - |
| 6 | 1-14 | | Cash | 442 - | | | 425 - | | 17 - |
| | | | TOTAL | 3046 - | 685 - | 845 - | 800 - | 1975 - | 111 - |

CREDITS 3731 = DEBITS 3731

| | DATE | CHECK # | DESCRIPTION | CASH 101 CR | FICA W/H 220 CR | FEDERAL W/H 220 CR | SALARY EXPENSE 610 DR | KITCHEN 130-3 DR | USED 138-5 DR |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1-8 | | Ed Toolittle | 520 - | 35 - | 45 - | 600 - | | |
| 2 | 1-8 | | Emil Gonzales | 429 - | 29 - | 42 - | 500 - | | |
| 3 | 1-23 | | Norman Ent. | 3000 - | | | | 3000 - | |
| 4 | 1-25 | | Fabrics Inc. | 227 - | | | | | 227 - |
| | | | TOTAL | 4176 - | 64 - | 87 - | 1100 - | 3000 - | 227 - |

CREDITS 4327 = DEBITS 4327

# APPENDIX F

## EVALUATION INSTRUMENT

## RECORD SYSTEMS

Name Key

1. Indicate whether the following questions are true or false by circling the appropriate letter.

   a. Your records are your business and the government has no right to question what you do. T [✓ F]

   b. Accurate records show a history of how successful the business has been. [✓ T] F

   c. Your banker may want to see your books before deciding whether to loan you more money. [✓ T] F

   d. Franchise holders may be required to keep specific types of records to satisfy their franchise agreement. [✓ T] F

   e. Most good business owners develop a sense about business decisions so that they do not need to rely on business records. T [✓ F]

2. Jack Garden owns a music store selling instruments, sheet music and records. His cash register contained the usual $50.00 cash fund at the start of business on May 12th. At the end of the day, his cash register tape showed $745.00 total sales for the day including $286.00 in charge sales rung into the register. He received a $50.00 down payment and a check for $200.00 to apply to an open account. At the end of the day his register contained $15.00 in coins, $317.00 in bills, $375.00 in checks and a paid out slip for $4.00 for the newspaper. Complete the following:

The Music Garden

Daily Cash and Sales Summary For May 12th

| | | | |
|---|---|---|---|
| Cash Sales | | 459 | |
| Credit Sales | | 286 | |
| Total Sales | | 745 | |
| Cash on Hand | | | |
| Coins | 15 | | |
| Bills | 317 | | |
| Checks | 375 | | |
| Total | | 707 | |
| Less Beginning Cash Fund | | 50 | |
| Total To Be Accounted For | | | 657 |

Receipts

Cash Sales 459
Received on
Account 200
Misc. Income 50

Total Income 709
Less Cash Paid Out 4
Total 705
Less Beginning Cash Fund 50

Total to Balance 655

Cash Over
Cash Under 2

3. Select the best alternative to complete the following sentence and indicate your answer by circling the appropriate letter.

When starting your business the responsibility for keeping records should be:

a. turned over to a public accounting firm.

b. delegated to one of your lower paid employees to save money.

[✓ c.] maintained by the owner so he can tell what systems are needed.

d. ignored because the IRS does not have time to be concerned with small business.

4. Indicate whether the following statements pertain to single-entry systems by inserting a "1" or double-entry systems by inserting a "2" in the space provided.

2 Debits must equal credits

1 No experience required

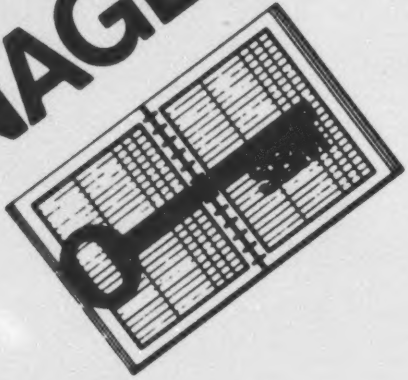
1 Profit and loss orientation

1 Difficult to isolate errors

1 Low cost

2 Balance sheet orientation

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 5

# The Balance Sheet and Profit & Loss Statement

For Adult and/or Post Secondary Instruction

## Module #5

## THE BALANCE SHEET AND PROFIT & LOSS STATEMENT

### PART I. Introduction

The Balance Sheet and the Profit & Loss Statement are the two most important reports which result from a good recordkeeping system. Their main purpose is to report where the business stands at a given time and how much profit or loss was achieved over a specific period of time. More important is the fact that the knowledgeable business owner can use these reports to manage the business more effectively.

### PART II. Objectives (Behavioral)

A. Following a presentation of the main elements of a balance sheet the student will be able to identify the major parts.

B. After a discussion of the uses of the balance sheet the student will be able to point out several ways a balance sheet can help the business owner.

C. Following a presentation of the main elements of a profit and loss statement the student will be able to identify the major parts.

D. After a discussion of the uses of a profit and loss statement the student will be able to identify several ways that the business owner can use the information it contains.

E. Following a discussion of at least six common business ratios the student will be able to demonstrate an understanding of how ratios are computed and how they are used in analyzing business operations.

F. Following a discussion of the use of financial statements in the forecasting process the student will be able to identify several ways that the statements can be helpful

### PART III. Transition of Modules

The previous module dealt with the recordkeeping requirements of a small business. This module covers two of the most important financial reports that are the end product of a good records system. The next module will deal with the purchasing function of a business.

### PART IV. The Lesson

*Attention Focuser*

*Ask each student to write down how much money he or she has in his or her pocket, without looking. Then have them count their money to see* *if it matches their figures. Relate this to the idea that we don't always know our own value or the value of our business. A business balance sheet will give us this information.*

*Now ask each student to write down where they spent cash from their pocket during the past week, and where they intend to spend the cash they now have in their pocket. Most people will have difficulty in remembering past expenses, or in really listing planned expenditures. Use this to point out the value of the monthly summary (profit and loss statement) for planning purposes.*

KEY QUESTION 1. What does the balance sheet show?

The balance sheet can be compared to a photograph of the status of a business at a given point in time. It gets its name from the fact that it represents the basic accounting equation: Assets = liabilities + net worth or equity. This means that the balance sheet shows that the current value of all the things that the business owns (assets) are equal to what is owed to others (liabilities) and what is owned by the owner (net worth). The balance sheet must contain the following:

1. Heading - Must show the name of the company and the date on which the report reflects the true status of all accounts at the end of the business day.

2. Current Assets - Cash, the market value of all assets which could be turned into cash in a short period of time, and all accounts and notes receivable that are due in less than one year.

3. Fixed Assets - Items used in the business and which are not intended to be resold immediately for a profit such as land, buildings, machinery, office furniture, vehicles (shown at their actual or depreciated value) and notes receivable that are due in more than one year.

4. Intangible Assets - Items of value which cannot be sold like tangible property; such as goodwill, patents, franchise payments, the cost of organizing the business and agreements not to compete.

5. Total Assets - The sum of the above (2+3+4).

6. Current Liabilities - Debts that must be paid within the year, such as amounts owed to suppliers or short-term loans.

7. Long Term Liabilities - Fixed debts payable over a period of years such as a real estate mortgage or an equipment loan.

8. Capital - This is the owners equity and is made up of the original investment in the business plus any profit the business has ever made minus any loses or withdrawals that have ever occurred.

9. Total Liabilities and Capital - Sum of 6 through 8 above and must be equal to 5 above. Thus, any errors in understating assets or over stating liabilities will show up as a reduction in the owners capital.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use Appendix A in transparency form and distribute a handout to each student. Encourage them to write notes in the right hand column to help them remember the items as you discuss them.*

KEY QUESTION 2. How is the balance sheet used?

1. To measure changes in a business. Since they are prepared periodically they can be used to compare totals and individual items to show progress or decline over time.

2. To show financial strength. By computing ratios of various items on the balance sheet the owner can measure the relative strength and ability to meet financial obligations and survive market changes.

3. To justify credit. Bankers will not lend money to a company unless their balance sheet shows a reasonable chance of being able to repay the loan.

4. As a basis for forecasting. It is difficult to set the future course of a business unless you know from where you start.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix B in transparency form to emphasize the point as you discuss them. Do not attempt to show how the ratios are completed at this time as they will be covered in Key Question 5.*

KEY QUESTION 3. What does the profit and loss statement show?

The profit and loss statement is a measure of how the business has performed over a period of time. It measures all income less all expenses to determine the amount of profit or loss that resulted from the business activity. The main items on the profit and loss statement are:

1. Heading - This includes the name of the company and the period covered in the statement.
2. Total Sales for the Period - Total amount of sales, both cash and credit.
3. Returns and Allowances - Money you refunded or credited to customers for merchandise they returned.
4. Net Sales - What is left after your returns and allowances are subtracted.
5. Beginning Merchandise Inventory - This is total money value of the stock on your shelves on the first day of the period.
6. Total Purchases - The additional stock you bought during the period.
7. Less Returns and Allowances - Stock you bought but later returned. You did not pay for this.
8. Net Merchandise Purchases - Stock you have actually bought and kept during the period.
9. Total Merchandise Handled - This is what you had on the first day plus what you have bought during the period.
10. Less Ending Merchandise Inventory - You have this much stock on your shelves at the end of the period.
11. Cost of Goods Sold - This is the actual cost of the merchandise you sold during the period.
12. Gross Profit on Sales - Net sales minus the costs of goods sold.
13. Less Operating Expenses - These really explain themselves. Every business has expenses that are not directly connected with buying and selling operations.

| | |
|---|---|
| Salaries | *Depreciation |
| Heat, Light, Power | Loss on Bad Debts |
| Rent | Miscellaneous |
| Insurance | |

*Depreciation means wearing out. If you have a truck in your business and it is wearing out at the rate of 25% loss in value per year, this amount is called depreciation and is carried as a regular expense.

14. Total Operating Expenses - Add up all your expense items.

15. Net Profit - Notice the formula here, gross profit minus expense equals net profit.

16. Less Withdrawals - You took money out of the business during the period. Maybe you bought yourself a car or put a down payment on a home. Even though that money is profit, it is no longer in the business.

17. Net Increase in Capital - This is the amount of profit you have left in the business. Your business is now larger by this much.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use Appendix C in transparency form and distribute handouts to each student. Encourage them to make notes in the right hand margin to help them remember what the various items mean.*

KEY QUESTION 4. What are the uses of the profit and loss statement?

Information on the profit and loss statement is of use in many different ways:

1. Income Tax Returns - Are based on your profit and loss statement. State and local taxing agencies also require information it can supply.

2. When you want a loan - The banker may want to see profit and loss statements that cover a period of years. He/she may be interested in how your sales compare with your expenses. He/she may want to know how much inventory you normally carry.

3. As a management tool - When you are interested in:

   a. Profits earned over a period of time.

b. Which departments to expand or contract.
c. Whether you have too large or too small an inventory.
d. Whether your overhead is too high.
e. Comparing your operations with those of others in the same line of business.
f. A basis for forecasting.

An intelligent understanding of your business can be had through proper use of your profit and loss statement.

*Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. Use Appendix D in transparency form in emphasizing the points.*

KEY QUESTION 5. How are ratios computed from financial reports?

A common way of measuring the financial strength of a business is through the use of ratios to see the relationship between amounts shown on the balance sheet and P & L statement. The most common ratios are:

1. Current Ratio - This measures the ability to meet short term obligations by converting liquid assets into cash in the normal course of business.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{14{,}000 + 21{,}000}{35{,}000} = 1.0$$

   A current ratio of 2 to 1 or better is considered good.

2. Acid-Test Ratio - Also called the "quick ratio" because it measures the ability to meet current obligations without selling out the merchandise inventory.

$$\frac{\text{Cash + Accts Receivable}}{\text{Current Liabilities}} = \frac{14{,}000 + 21{,}000}{35{,}000} = 1.0$$

   An acid-test ratio of 1 to 1 is adequate provided the accounts receivable can all be collected. Most business owners would want a higher ratio as a margin of safety.

3. Inventory Turnover - Tells how fast your merchandise is moving. This varies greatly with the type of business, a furniture store might do well turning its inventory 1½ times while a grocery store would try to achieve 15 to 20 turns. It is determined by dividing the cost of goods sold by the coverage inventory.

$$\frac{\text{Cost of Goods Sold}}{\frac{\text{Beg. Inv.} + \text{End. Inv.}}{2}} = \frac{300{,}000^*}{\frac{85{,}000 + 88{,}000}{2}} = \frac{300{,}000}{86{,}500} = 3.46$$

4. Average Markup - How much are you making on each sale. Those businesses with low turnover must make a higher markup to cover expenses.

$$\frac{\text{Net Sales}}{\text{Cost of Goods Sold}} = \frac{35{,}900}{25{,}000} = 1.43$$

5. Rate of Return on Assets - Measures the profitability of the firm and tells you whether you would be better off to sell the business and put the money in a bank account.

$$\frac{\text{Profit}}{\text{Total Tangible Assets}} = \frac{84{,}000}{123{,}000 + 34{,}000} = \frac{84{,}000}{157{,}000} = .54$$

6. Average Collection Period - Tells you how well you are collecting your accounts receivable. This is important because accounts over 45 days late are more difficult to collect and may indicate problems in your credit granting policy.

$$\frac{\text{Net Sales for this Period}}{\text{Business Days}} = \frac{35{,}900}{24} = 1496 \text{ Avg. Daily Sales}$$

$$\frac{\text{Accounts Receivable}}{\text{Average Daily Sales}} = \frac{21{,}000}{1{,}496} = 14 \text{ Days of Sales tied up in Receivables}$$

*Suggested Teaching Strategy*

*Write Key Question 5 on the chalkboard. Work out each of the ratios on the chalkboard being sure to show where the information comes from on the financial statements. Also, point out that there are many more ratios that can be worked out to show the relationship between any two items on the statements. It is up to the business owner to determine which are most useful both for analyzing progress over time and comparing results with industry trends or national averages.*

KEY QUESTION 6. How are financial statements used in the forecasting process?

By extending the P & L statement items into the future the business owner can develop a budget. By making allowances for those items which are expected to change you can calculate the sales that will be necessary to maintain a certain level of profit. This process will help the manager by:

---

*$25,000 times 12 assuming December was on "average" month for the Music Garden in terms of sales and inventory.

1. Providing definite business objectives or targets to shoot for in the areas of controllable expenses and pricing.

2. Showing variance from estimates so that corrections can be made to meet changing market needs.

3. Placing responsibility where it belongs so you know who to blame if certain items get out of control.

4. Allowing you to establish a break-even point so that you know how much business you have to do to cover your costs.

5. Letting you plan your cash flow and borrowing and repayment schedule so that you will have enough capital to cover all future obligations.

*Suggested Teaching Strategy*

*Use Appendix E, Key Question 6, in transparency form to emphasize the points as you discuss them.*

## PART V. Summary

A. The balance sheet shows a complete listing of the assets, liabilities, and capital at a specific point in time.

B. A series of balance sheets will show change in the business, indicate the financial condition and act as a tool for management decision making.

C. The profit and loss statement shows the amount of profit or loss that results from conducting business for a specific time period.

D. The profit and loss statement provides information for tax returns, helps the banker establish the credit worthiness of a business and helps the owner manage the business more effectively.

E. Financial ratios are calculations of financial figures which compare a business with past time periods or with other businesses or industry averages.

F. The financial statements provide a historical basis for forecasting the future of a business.

## PART VI. Unit Evaluation Instruments and/or Techniques

At the completion of this unit students should be required to complete the evaluation instrument on the following page.

# EVALUATION INSTRUMENT

## BALANCE SHEET AND P & L STATEMENT

Name ________________________

1. Indicate the financial statement on which the following items would be found by inserting a "B" for balance sheet or an "P&L" for profit and loss statement in the space provided:

_______ Total Sales

_______ Current Liabilities

_______ Cost of Goods Sold

_______ Net Profit

_______ Notes Payable

_______ Cash on Hand

_______ Rent Payment

_______ Current Assets

_______ Net Merchandise Purchased

_______ Gross Profit

2. For the following statements place a check mark to indicate whether it refers to the balance sheet or income statement. Check both spaces if the statement pertains to both.

| Balance Sheet | P & L Statement | |
|---|---|---|
| _______ | _______ | Used on a basis for forecasting. |
| _______ | _______ | Shows status at the end of a particular business day. |
| _______ | _______ | Used to prove credit worthiness. |
| _______ | _______ | Can be compared to show change in a business. |
| _______ | _______ | As a basis for preparing an income tax. |
| _______ | _______ | Shows whether your overhead is too high. |

3. Answer the following by circling the "T" if the statement is true or the "F" if the statement is false.

a. Ratios are used to compare balance sheet totals. T F

b. Current ratio measures the ability to meet short term obligations. T F

c. The quick ratio measures speed of inventory turnover. T F

d. The average collection period is important because accounts over 45 days late are more difficult to collect. T F

e. Forecasting is important because everyone performs better when they have definite goals. T F

f. Planning cash flow is unimportant because most businesses never hit their forecast targets within 20% anyway. T F

# PART VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - The Music Garden, Balance Sheet
Appendix B - Key Question 2
Appendix C - The Music Garden, P & L Statement
Appendix D - Key Question 4
Appendix E - Key Question 5
Appendix F - Evaluation Instrument Key

# GLOSSARY OF TERMS*

Assets - Anything owned by an individual or a business which has commercial or exchange value.

Break-Even - The point at which income is equal to all expenses (fixed and variable); after this point a profit is made.

Liabilities - The amount you or your business owes to others.

Profit and Loss - (Should be stated as Profit or Loss), the amount of money remaining after all expenses are subtracted from income, may be a negative amount indicating a loss.

Ratio - A comparison of two different figures; an asset to liability (asset: liability) ratio of 2:1 means there are twice as many assets as there are liabilities, or for every one dollar of liabilities there are two dollars of assets.

Variance - The difference or discrepancy between two items or from a normal or average situation.

*NOTE: Several terms are defined within the body of this module which would normally be found in a glossary.

# APPENDIX A

## "The Music Garden"
## Balance Sheet
## December 31, 1977

| | | |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash on Hand | 3,000 | |
| Cash in Bank | 11,000 | |
| Merchandise Inventory | 88,000 | |
| Accounts Receivable | 21,000 | |
| Total Current Assets | | 123,000 |
| Fixed Assets | | |
| Real Estate - Land | 12,000 | |
| Furniture & Fixtures | 16,000 | |
| Vehicles | 6,000 | |
| Total Fixed Assets | | 34,000 |
| Intangible Assets | | |
| Goodwill | | 5,000 |
| TOTAL Assets | | 162,000 |
| **Liabilities and Capital** | | |
| Current Liabilities | | |
| Accounts Payable | 23,000 | |
| Notes Payable | 12,000 | |
| Long-Term Liabilities | | |
| Mortgages Payable | 19,000 | |
| Notes Payable | 16,000 | |
| Total Liabilities | | 70,000 |
| Capital | | |
| Owners Net Worth, Dec. 1977 | 85,000 | |
| Profits After Withdrawals Dec. | 7,000 | |
| Total Capital | | 92,000 |
| TOTAL Liabilities & Capital | | 162,000 |

# APPENDIX B

## KEY QUESTION 2. HOW IS THE BALANCE SHEET USED?

1. TO MEASURE CHANGE IN A BUSINESS
2. TO SHOW FINANCIAL STRENGTH
3. TO JUSTIFY CREDIT
4. AS A BASIS FOR FORECASTING

# APPENDIX C

## "THE MUSIC GARDEN"
## P & L STATEMENT
## FOR THE MONTH OF DECEMBER 1977

| | | | |
|---|---|---|---|
| TOTAL SALES FOR THE MONTH | | 36,400 | |
| LESS RETURNS & ALLOWANCES | | 500 | |
| NET SALES | | | 35,900 |
| | | | |
| BEGINNING INVENTORY | | 85,000 | |
| TOTAL PURCHASES | 29,000 | | |
| LESS RETURNS & ALLOWANCES | 1,000 | | |
| NET MERCHANDISE PURCHASES | | 28,000 | |
| TOTAL MERCHANDISE HANDLED | | 113,000 | |
| LESS ENDING INVENTORY | | 88,000 | |
| COST OF GOODS SOLD | | | 25,000 |
| GROSS PROFIT ON SALES | | | 10,900 |
| | | | |
| OPERATING EXPENSES | | | |
| SALARIES | 1,200 | | |
| HEAT, LIGHT, POWER | 300 | | |
| RENT | 150 | | |
| INSURANCE | 35 | | |
| DEPRECIATION | 100 | | |
| LOSS ON BAD DEBTS | 50 | | |
| MISCELLANEOUS | 65 | | |
| TOTAL OPERATING EXPENSE | | 1,900 | |
| NET PROFIT | | | 9,000 |
| LESS WITHDRAWALS | | | 2,000 |
| NET INCREASE IN CAPITAL | | | 7,000 |

# APPENDIX D

## KEY QUESTION 4. WHAT ARE THE USES OF THE P & L STATEMENT?

1. INCOME TAX RETURNS

2. WHEN YOU WANT A LOAN

3. AS A MANAGEMENT TOOL
    - A. PROFITS EARNED
    - B. WHICH DEPARTMENTS TO EXPAND OR CONTRACT
    - C. HOW MUCH INVENTORY
    - D. IS OVERHEAD TOO HIGH
    - E. COMPARING WITH OTHER BUSINESSES
    - F. A BASIS FOR FORECASTING

# APPENDIX E

## KEY QUESTION 6. HOW ARE FINANCIAL STATEMENTS USED IN THE FORECASTING PROCESS?

1. TO PROVIDE DEFINITE OBJECTIVES.

2. SHOWS VARIANCES FROM ESTIMATES.

3. PLACES RESPONSIBILITY.

4. ALLOWS CALCULATION OF BREAK-EVEN POINT.

5. PLANNING CASH FLOW AND BORROWING AND LOAN REPAYMENT.

# APPENDIX F

## EVALUATION INSTRUMENT

## BALANCE SHEET AND P & L STATEMENT

Name Key

1. Indicate the financial statement on which the following items would be found by inserting a "B" for balance sheet or an "P&L" for profit and loss statement in the space provided:

P+L Total Sales
B Current Liabilities
P+L Cost of Goods Sold
P+L Net Profit
B Notes Payable
B Cash on Hand
P+L Rent Payment
B Current Assets
P+L Net Merchandise Purchased
P+L Gross Profit

2. For the following statements place a check mark to indicate whether it refers to the balance sheet or income statement. Check both spaces if the statement pertains to both.

| Balance Sheet | P & L Statement | |
|---|---|---|
| ✓ | ✓ | Used on a basis for forecasting. |
| ✓ | | Shows status at the end of a particular business day. |
| ✓ | ✓ | Used to prove credit worthiness. |
| ✓ | ✓ | Can be compared to show change in a business. |
| | ✓ | As a basis for preparing an income tax. |
| | ✓ | Shows whether your overhead is too high. |

3. Answer the following by circling the "T" if the statement is true or the "F" if the statement is false.

a. Ratios are used to compare balance sheet totals. T [✓ F]

b. Current ratio measures the ability to meet short term obligations. [✓ T] F

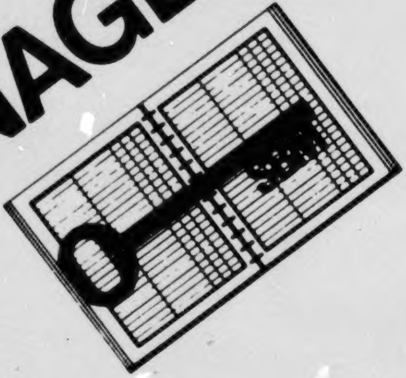
c. The quick ratio measures speed of inventory turnover. T [✓ F]

d. The average collection period is important because accounts over 45 days late are more difficult to collect. [✓ T] F

e. Forecasting is important because everyone performs better when they have definite goals. [✓ T] F

f. Planning cash flow is unimportant because most businesses never hit their forecast targets within 20% anyway. T [✓ F]

# SMALL BUSINESS MANAGEMENT



Going-Into-Business

Module 6

# Purchasing

For Adult and/or Post Secondary Instruction

## Module #6

## PURCHASING

### PART I. Introduction

It has been said that it is much easier to buy something than it is to sell it. Because of this most small business owners concentrate on the selling part of their business. The truth is that the buying or purchasing all the parts that go into a business is a most vital task that requires study and concentration as well as a knowledge of the customer and what he/she expects to get for his/her money.

### PART II. Objectives (Behavioral)

A. Given a list of major items that a business owner might be required to purchase the student will be able to demonstrate an understanding of the importance of the purchasing function.

B. Following a discussion of important considerations for selecting suppliers the student will be able to identify the most important criteria.

C. Following a discussion of the sources of information the student will be able to identify those information sources most helpful in making purchasing decisions.

D. After a discussion on the importance of records to a good purchasing program the student will be able to identify those records which might prove most helpful.

### PART III. Transition of Modules

Module #5 covered the two most important financial statements of a business, the balance sheet and the P & L statement. This module discusses the importance of the purchasing function to a small business. The next module will cover marketing techniques that can be employed by a small business.

### PART IV. The Lesson

*Attention Focuser*

*With the fishing season only 2 weeks away you as the owner of a sporting goods store are faced with a problem. Your supplier of $5.00 to $7.00 fishing reels is on strike and cannot ship any reels for an indefinite period of time. You have 25 reels in stock but you normally sell 12 to 15 per week for the first 10 weeks of the season and then sales drop to 3 per week for the next 3 months. The following sources are available to you:*

1. *Anderson Company. You stopped selling the Handy Andy reels two years ago because they had poor service facilities and a high amount of returned reels due to poor workmanship and quality. Their salesperson tells you that product quality has improved greatly since then. He says service is not a problem because it is a "throw away" reel and most customers don't expect the reels to last very long. Minimum order 3 dozen, delivery 4 weeks, cost is $3.00 each and suggested retail is $4.95.*

2. *Bass Manufacturing Co. "Bass Bugger" is an unknown brand of questionable quality. It is made in Japan but is available from the Chicago warehouse in one week. Minimum order 2 gross, cost $2.75, suggested retail $5.95.*

3. *Cosgrove Distributing Co. Cosgrove Special Model 200C is made in Hong Kong and warehoused in San Francisco. They have a one year guarantee on parts and labor but the purchaser has to send the reel to San Francisco for repair. Delivery is 2 weeks, minimum order lots of 24, cost $3.25 and suggested retail of $5.95.*

*What would you do? What additional information would help you arrive at your decision?*

*NOTE: Distribute copies of Appendix A to each student. Give them 10 minutes to study the problem and write out their answers. Discuss the problem and list the alternatives 1) do nothing and wait for the strike to be settled, 2) buy 1, 2 or 3, or 3) look for additional sources of supply. For Question 2 almost any additional information might prove helpful but point out that it takes time and effort to get the information and these factors have to be weighed against the need for a quick decision.*

KEY QUESTION 1. What types of things must the small business owner purchase?

Whether buying an existing business or starting from scratch there are numerous buying decisions that require careful consideration, the weighing of several alternatives and frequently the use of professional advice. In starting a business you may find yourself buying the following:

1. Real Estate - You will probably be buying land or buildings through a real estate broker, but you should still consult an attorney to review the title of the property, check on zoning, easements, liens and tax obligations. Also check

to make sure that the abstract, bill of sale etc. are correctly drawn up and recorded.

2. A Going Business - In addition to the above, your attorney can advise you if your state has a bulk sales law which protects the buyer by requiring the seller to obtain releases from all his/her suppliers to prove that all merchandise being transferred is paid for. You may also require some tax advice to insure that the bill of sale gives a breakdown that will allow you to determine your tax liability and establish a basis for depreciation.

   NOTE: If you are transferring personal property to the business you may wish to get an independent appraisal of the property to establish your depreciation basis.

3. Furniture and Fixtures - The way you furnish your place of business says a lot about you and your attitudes toward the customer. It sets a tone or image for your business. Beyond that the expense is largely non-productive so budget your money and buy wisely. Consider used equipment or leasing, as a way to avoid a large initial outlay of cash. Be sure to consider:

   a. Appropriateness - Does the appearance of your business accurately depict the quality of merchandise or service that you sell?
   b. Flexibility - Your business is going to change. Be sure that your display racks or counters can be altered to fit different sizes or amounts of inventory and that you can meet seasonal and other special needs.
   c. Durability - Be sure you buy furnishings that can stand up to hard use so that you get maximum use from your investment.
   d. Protection - Your fixtures and display cases, should show off your merchandise to best advantage while protecting it from wear and tear, theft or deterioration.

4. Signs - And your exterior appearance are important in attracting customers. This is too important to be left to chance. Be sure that your customers know who you are, what you do, how to get to you, where to park, what hours you are open and what brands of merchandise you carry. You may get some help from your suppliers to cover the cost of the signs but be sure to budget enough to get large clear signs that will make a good first impression for your business.

5. Equipment - A cash register, office machines, a safe and various tools or machines may be required in your business. Shop around for equipment and keep records for depreciation purposes.

6. Vehicles - A truck, van or automobile may be required. Consider used equipment or leasing as ways of conserving start-up capital. Keep records of repairs and expenses and record all business and personal mileage.

7. Insurance - This is a necessary and often complicated item. Module #11 will go into greater detail but it is important to get bids for your total insurance package from 2 or 3 reputable insurance brokers. Review your coverage annually and get competitive bids every 2 or 3 years just to make sure you are getting the best deal.

8. Utilities - You can't do much about the prices but you can rely on specialists from the utilities to make sure that everything is operating correctly and that you are getting the most use from the equipment you have.

9. Services - You should maintain records of all services you use in your business because they can add up to a sizable portion of your total expenses. Whether you use a delivery service, linen supply, telephone answering, bookkeeping, janitorial or other services you should be constantly weighing the cost against what you would save by doing it yourself. It is difficult to control the level of quality of services and what you must constantly evaluate is how do these services affect your relationship with your customers.

10. Merchandise for Resale - You make money by selling but you can lose money by buying incorrectly. The biggest purchasing responsibility is in maintaining an inventory of merchandise which fits the price and quality needs of your customers, and in quantities which are appropriate to your sales.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use Appendix B in transparency form to reinforce the items as you discuss them. This list is intended to be somewhat general. Perhaps your students can suggest other typical items. Do not spend too much time discussing specific items peculiar to certain businesses.*

KEY QUESTION 2. What are the important considerations in selecting merchandise suppliers?

In order to conduct business you must have a group of dependable suppliers to provide a steady flow of raw materials or merchandise. In selecting the right ones you should consider:

1. Quality - There are different levels of quality and it is up to you to determine what is appropriate for your customers. In many cases it may require 2 or 3 or more levels of quality or brands to meet the particular needs of all your customers. In selecting a supplier you should look for a consistance of quality on which both you and your customers can depend.

2. Price - Must be consistant with the level of quality. This doesn't mean that you should always seek out the lowest price but rather you should look for one that brings fair return to both you and your supplier and still provides a good value to your customer. Negotiate with your supplier to get the best price based on size of order, method of transportation, seasonal demand, credit terms or any other variable factors which might give you an advantage.

3. Delivery - Must be measured in terms of what affect a late delivery will have on your sales. Whether you have to warehouse merchandise to protect yourself depends on your analysis of:

    a. Location of supplier and proximity to rail lines, terminals or trucking facilities.
    b. Reputation for dependability and their history of labor relations.
    c. Method of delivery and the amount of control the supplier can exercise.
    d. Materials situation and the amount of inventory the supplier handles.

4. Multiple Sources - For your own protection you should maintain relations with at least two suppliers for everything that you buy. This will give you protection in case of a strike or other interruption and put you in a favorable bargaining position with respect to price and delivery.

5. Credit Policy - The supplier can be an important credit source for example by shipping Christmas merchandise in

October but holding the bill until January 15th or February 1st.

6. Exclusive Arrangements - Quite often you will be able to negotiate exclusive contracts or the right to sell particular brands of merchandise in your area. Consult your attorney before you sign any contracts which specify a territory or limit your ability to handle competitive merchandise since such contracts might be in violation of anti-trust laws.

7. Supplier Sponsored Training - Suppliers often provide training opportunities for maintainence and sales personnel. This is especially important when new products come on the market.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix C in transparency form to reinforce the items as you discuss them.*

KEY QUESTION 3. Where can the small business owner obtain information to assist in purchasing decisions?

The main sources would include:

1. Customers - Get to know your customers so you can determine their wants and needs. Pay particular attention to customers who don't find what they want. Find out what they are looking for, what price range or size etc. and determine if you could special order the item.

2. Supplier, Salepersons - They can provide information on new products, help you merchandise your wares, let you know if other businesses are having success with particular items and keep you posted on current pricing.

3. Trade Shows - Regional or national market shows are excellent opportunities to see new products and compare the products and prices of competing wholesale firms and manufacturers. They are usually held well in advance of the season so that you can be assured of delivery of merchandise when you need it.

4. Competition - Getting to know your competition and other business owners in your community should provide many clues about economic or market conditions. Participation in the Chamber of Commerce and similar service organizations

can provide a format for dealing with common business problems.

5. Trade Journals - Professionals or business magazines and newspapers can provide many clues to new products, changing consumer demands and fluctuations in economic conditions. Advertisements can often help you select new products or additional sources of supply. Industry data such as operating ratios, inventory turnover and classified advertising of used equipment are also provided.

6. Innovation - During your vacation time travel to other market areas or countries to observe how other businesses are being conducted. Take pictures and make notes on any new ideas that might apply to your business. Keep experimenting with new merchandising techniques until you find the formula that best suits your customers and provides the best return on your investment

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use Appendix D in transparency form to reinforce the items as you discuss them. Under topic 6 you might wish to include a discussion of changing merchandising techniques and cite some specific examples of current trends.*

KEY QUESTION 4. What records are necessary to operate a good purchasing program?

1. Inventory Control Records - They are necessary in order to:
    a. Maintain a steady inventory level geared to actual sales.
    b. Show which items to reorder and when.
    c. Calculate the optimum order amounts based on sales, forecasts and quantity discount data.
    d. Record the arrival of merchandise and verify amounts prior to making payments.
    e. Show age or condition of merchandise inventory.

2. Record of Purchases - As well as beginning and ending inventories to allow calculation of the cost of goods sold.

3. Records on Suppliers - Including a Dun and Bradstreet report of financial condition and memos or correspondence regarding failures to meet delivery dates, difficulties in processing credit adjustments or damage claims, quality variances, and short shipments failure to honor stated prices etc.

4. Out of Stock Reports - These are to bring to your attention any inventory shortages, changes in sales pattern or shipping difficulties that would requires special attention such as calling the supplier or finding an alternate source of supply.

5. Customer Want Sheet - Keep a notebook near the cash register so you can write down all the items that customers ask for. This will call attention to items to be ordered and give clues to additional merchandise lines that you might wish to carry. Even seemingly strange requests might give you valuable clues to needs that are not being met in your market area and offer possibilities for you to exploit.

*Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. Use Appendix E in transparency form to reinforce the items as you discuss them.*

PART V. Summary

A. Starting a business involves the purchase of a wide variety of property and equipment, goods and services. Those expenditures require careful consideration and often legal assistance.

B. Quality, price and delivery are the primary considerations when selecting merchandise suppliers. Having multiple sources and careful negotiation of credit arrangements and exclusive arrangements can benefit the business owner frequently.

C. The business owner must be constantly aware of the needs of his/her customers as well as merchandise trends both in his/her market area and national and world markets.

D. An effective purchasing program requires an efficient inventory and record system which provides the buyer with accurate and timely data on which to have purchasing decisions.

PART VI. Evaluation Instrument and/or Techniques

Upon completion of this unit the student should be able to complete the evaluation instrument on the following page.

# EVALUATION INSTRUMENT

## PURCHASING

Name ______________________________

1. When purchasing the following listed items you might seek out advice or professional assistance. Indicate in the space provided if you would contact: A - an attorney; B - a real estate broker; C - several competing sales representatives; or S - a single sales representative:

______ Signs
______ A truck
______ A franchise agreement for a specified area
______ Fire insurance
______ Unimproved land
______ A license to sell one brand of merchandise but which prevents you from selling competing brands
______ Office furniture
______ A cash register
______ Janitorial service
______ Merchandise for resale

2. Circle the factors that should be considered when selecting merchandise suppliers.

Delivery
Insurance
Flexibility
Multiple Sources
Quality
Price
Guarantees
Price
Competition
Services

3. Indicate whether the following statements are true or false by circling the appropriate letter.

a. Customer requests are often good clues to items you should carry. T F

b. Trade shows are a waste of time unless you have something to trade. T F

c. Exclusive contracts with suppliers can often give you a competitive advantage. T F

d. Don't bother to study what your competition is doing since you will probably have better ideas on your own. T F

e. Supplier salesperson can advise you on what is selling in other areas and what price you should charge. T F

## PART VII. Transparency Masters & Other Teaching Support Material

Glossary of Terms
Appendix A - Gone Fishin!
Appendix B - Key Question 1
Appendix C - Key Question 2
Appendix D - Key Question 3
Appendix E - Key Question 4
Appendix F - Evaluation Instrument Key

## GLOSSARY OF TERMS

Balance Sheet - An itemized statement listing the total assets and the total liabilities of a business to show its net worth at a given time.

Bill of Sale - A document transferring title in personal property from seller to buyer.

Broker - An agent who buys or sells for a principal on a commission basis.

Credit - Confidence in a purchaser's ability and intention to pay displayed by entrusting him/her with goods or services without immediate payment.

Easement - A right held by one person to make use of the land of another for a limited purpose.

Franchise - A legal agreement where the buyer owns his/her own business but agrees to conduct it in accordance with certain methods and terms specified by the franchiser within a given area.

Inventory - An itemized list or catalog of goods, property, etc., such as a list of the stock of a business, taken annually.

Liens - A legal right to hold property or to have it sold or applied for payment of a loan or mortgage.

Optimum - The best or most favorable conditions for obtaining a given result.

Profit & Loss Statement - An account of the gain and loss arising from business transactions.

Supplier - A firm or individual who supplies goods and services necessary in the operation of a business.

Zoning - Laws or regulations concerning where businesses can locate, parking restrictions, pollution standards, trash removal, etc.

# APPENDIX A

## GONE FISHIN!

With the fishing season only 2 weeks away you as the owner of a sporting goods store are faced with a problem. Your supplier of $5.00 to $7.00 fishing reels is on strike and cannot ship any reels for an indefinite period of time. You have 25 reels in stock but you normally sell 12 to 15 per week for the first 10 weeks of the season and then sales drop to 3 per week for the next 3 months. The following sources are available to you:

1. Anderson Company. You stopped selling the Handy Andy reels two years ago because they had poor service facilities and a high amount of returned reels due to poor workmanship and quality. Their salesman tells you that product quality has improved greatly since then. He says service is not a problem because it is a "throw away" reel and most customers don't expect the reels to last very long. Minimum order 3 dozen, delivery 4 weeks, cost is $3.00 each and suggested retail is $4.95.

2. Bass Manufacturing Co. "Bass Bugger" is an unknown brand of questionable quality. It is made in Japan but is available from Chicago warehouse in one week. Minimum order 2 gross, cost $2.75, suggested retail $5.95.

3. Cosgrove Distributing Co. Cosgrove Special Model 200C is made in Hong Kong and warehoused in San Francisco. They have a 1 year guarantee on parts and labor but the purchaser has to send the reel to San Francisco for repair. Delivery is 2 weeks, minimum order lots of 25, cost $3.25 and suggested retail of $5.95.

What would you do?

What additional information would help you arrive at your decision?

# APPENDIX B

## KEY QUESTION 1. WHAT TYPES OF THINGS MUST A SMALL BUSINESS OWNER PURCHASE?

1. Real Estate
2. A Going Business
3. Furniture and Fixtures
4. Signs
5. Equipment
6. Vehicles
7. Insurance
8. Utilities
9. Services
10. Merchandise for Resale

# APPENDIX C

## KEY QUESTION 2. WHAT ARE THE IMPORTANT CONSIDERATIONS IN SELECTING SUPPLIERS?

1. QUALITY
2. PRICE
3. DELIVERY
4. MULTIPLE SOURCES
5. CREDIT POLICY
6. EXCLUSIVE ARRANGEMENTS
7. SUPPLIER SPONSORED TRAINING

# APPENDIX D

KEY QUESTION 3. WHERE CAN THE SMALL BUSINESS OWNER OBTAIN INFORMATION TO ASSIST IN PURCHASING DECISIONS?

1. CUSTOMERS
2. SUPPLIER SALEPERSONS
3. TRADE SHOWS
4. COMPETITION
5. TRADE JOURNALS
6. INNOVATION

# APPENDIX E

## KEY QUESTION 4. WHAT RECORDS ARE NECESSARY TO OPERATE A GOOD PURCHASING PROGRAM?

1. Inventory Control
2. Record of Purchases
3. Records on Suppliers
4. Out-of-Stock Reports
5. Customer Want Sheet

# APPENDIX F

## EVALUATION INSTRUMENT

## PURCHASING

Name Key

1. When purchasing the following listed items you might seek out advice or professional assistance. Indicate in the space provided if you would contact: A - an attorney; B - a real estate broker; C - several competing sales representatives; or S - a single sales representative:

C Signs
C A truck
A A franchise agreement for a specified area
C Fire insurance
B Unimproved land
A A license to sell one brand of merchandise but which prevents you from selling competing brands
C Office furniture
C A cash register
C Janitorial service
C Merchandise for resale

2. Circle the factors that should be considered when selecting merchandise suppliers.

[✓ Delivery]
Insurance
Flexibility
[✓ Multiple Sources]
[✓ Quality]
Price
Guarantees
Price
Competition
Services

3. Indicate whether the following statements are true or false by circling the appropriate letter.

a. Customer requests are often good clues to items you should carry. [✓ T] F

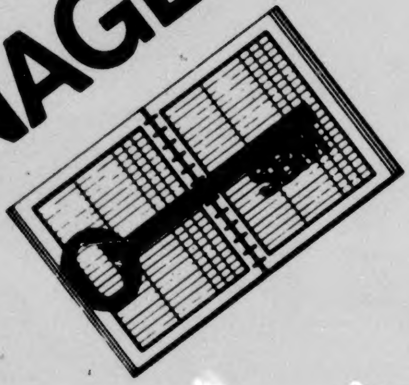
b. Trade shows are a waste of time unless you have something to trade. T [✓ F]

c. Exclusive contracts with suppliers can often give you a competitive advantage. [✓ T] F

d. Don't bother to study what your competition is doing since you will probably have better ideas on your own. T [✓ F]

e. Supplier salesperson can advise you on what is selling in other areas and what price you should charge. [✓ T] F

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 7

# Marketing

For Adult and/or Post Secondary Instruction

## Module #7

## MARKETING

### PART I. Introduction

Marketing is a broad term that covers all the activities involved in transferring goods and services to the consumer. It covers not only the steps that go into getting the concept ready for the market but also all the follow-up activities of assuring customer conveniences, safety and satisfaction.

### PART II. Objectives (Behavioral)

Following a discussion of the six key elements in the marketing process and the term "marketing strategy," the class will participate in a Marketing Strategy Game to demonstrate their understanding of the marketing concept and how it is used in practical applications.

### PART III. Transition of Modules

The previous module dealt with the purchasing function in a small business. This lesson covers the marketing activities of a business and the next one will focus on the sales activities of a small business.

### PART IV. The Lesson

#### *Attention Focuser*

*Utilize the Attention Focusing transparency from Appendix A to illustrate that the "Marketing Machine" needs to be properly adjusted to work effectively.*

KEY QUESTION 1. What are the key elements in the marketing process?

There are many parts to a marketing program, and because the names begin with the letter P they may be referred to as the 6 P's of marketing.

1. Positioning - This refers to the activity of researching your market and your customers to determine what they want and how they wish to obtain it. By careful interpretation of research data you can position your product so it will have the maximum appeal where and when the customer needs it most. While this process doesn't guarantee success it can work around most of the obstacles and improve your chances for success.

   Manufacturers positioning involves decisions concerned with selling products directly to the companies or to using manufacturers' representatives, wholesalers, retail chain stores or independent retailers as major outlets. You would also have to decide whether to use a "suggested retail" price and decide if you wanted your product to be sold through discount houses, fancy specialty shops or somewhere in-between.

For retailing or service business positioning means establishing a retail store or service to appeal to a predetermined market or group of customers. Your concept should be consistant with what your customers want so your evaluation might include:

a. Site location - where do your customers shop and how can you get close to the action?
b. Image - how do you wish to appear to your customers. Make sure your stores appearance, advertising, merchandise and level of service are consistant with your image.
c. Price lines - is your merchandise or service fairly priced so that your customers feel that they are getting good value for their money?
d. Quality - carefully select brands and merchandise that will give you a consistant level of quality that your customers can depend on.
e. Convenience - in terms of location, access to parking, hours you are open, financing arrangements, delivery or installation.
f. Timeliness - do you have an adequate selection of merchandise available when the customer wants it?

2. Product - A system of pre-testing before introducing your product and then constantly checking with customers should give you a good idea of how satisfied they are and whether they feel that they are receiving a good value for their money. It might be important to know how many people buy your product a second or third time and what degree of loyalty you can develop among your customers.

   Manufacturers are usually concerned with the consistant level of quality of the products or materials which carry a certain brand. Many manufacturers make similar items of different quality levels which carry separate or private brand labels.

   Retailers and service companies must be constantly aware of the relative quality of the products that they sell or use.

3. Price - How much the customer will pay for your merchandise or service depends on a number of different and sometimes conflicting factors such as:

    a. The value or "worth" of the items in the customers mind.
    b. How much money the customers have to spend.
    c. How badly the customers need or want the item.
    d. What else the customers need or want more of.
    e. How convenient merchandise is to get - in terms of delivery, financing, etc.
    f. How customers feel about you and your business or brand compared to your competition.

    Setting prices is one of the most critical activities of a business owner. If your prices are too high your volume may be too small to cover your costs. If your prices are too low your volume of sales may be high but you will not have enough margin to cover your operating expenses. Special sales or discounts are effective in moving specific merchandise and can be used to get more customers into your store during slow periods.

4. Packaging - The way you display, wrap or deliver your goods and services can have a great effect on your overall success. The way you treat your merchandise from the pipe racks of a discount store to the flair of a fine jewelry store will appeal to the senses of your customers. The steak may be the same but whether you serve it on a sizzling platter or a cold bun will greatly affect the customers satisfaction and the amount that he/she is willing to pay.

5. Promotion - What you say to your customers and the media that you use will greatly affect their attitudes about you and what you are selling. The invention of television has dramatically changed the way that people think about products and services. The small business owner usually cannot afford TV promotion, and consequently has to rely on other creative ways of reaching and communicating with potential customers. Gaining favorable attention is an important and continuing activity of the small business owner.

6. Physical Distribution - How, when and where you sell your product or service will greatly affect sales volume and markup. We live in an age where certain customers demand more convenience and yet others are attracted by the do-it-yourself craze. The key to success is to research your

customers thoroughly to find out what they want and what they are willing to pay for and where they are most likely to be when they make the buying decision. Whether you are a direct sales force or rely on others to sell your product will greatly affect your control over the selling situation and the cost of getting the job done.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use Appendix B in transparency form to reinforce the major points as you discuss them. It would be helpful to bring specific products, ads, packages, etc. to illustrate how they are designed to solve specific marketing problems or attain certain goals.*

KEY QUESTION 2. What is meant by the term marketing strategy?

A marketing strategy is the overall plan you use to overcome your marketing obstacles and attain your goals. It involves the way you apply each of the elements mentioned in Key Question 1, to meet specific needs. It also requires some financial planning because each of the elements involves a series of cost relationships. If you can envision the 6 P's as control valves to the proper setting to meet sales objectives while keeping marketing costs in line. During the life of a product the strategy may change to meet changing market conditions, economic factors and comparative situations.

Some of the more common market strategies are:

1. Loss Leaders - Offering a popular item or a recognized brand at a greatly reduced price (often below cost) in order to attract customers into your store in hopes that they will buy additional items at your regular markup to make up the loss. If your customers are "cherry pickers" (buy only the sale items) the strategy will backfire.

2. Penetration Pricing - Introducing a product at an artificially low price to get wide usage can be used to keep competitors out until you have gained a good hold on the market by pricing the item so low that others will decide not to compete.

3. Skimming Pricing - Introducing a product at an artificial high price to maximize profits or cover development cost. Works best on a unique product where customers are willing to pay extra to get the concept, style or

status. As the product becomes more available and as competitors enter the market you can gradually lower your price to expand sales.

4. Cents-off Deals - Using coupons (mailed newspapers or in-store) to promote sales on specific items. Can be used to introduce a new product, stimulate a dying one or to meet particular competitive situations. To frequent use will cause your customers to stop buying at the "regular" price. Often the manufacturers will participate so that it costs the retailer little or nothing.

5. Seasonal Promotions - Deals or "spiffs" (sales commissions) to encourage early sales of seasonal merchandise or post season specials to move surplus inventories.

6. Private Label - When a manufacturer produces items under the buyers name or brand. Can be used to take advantage of the goodwill that the retailer has built up. Usually the items are sold at a reduced wholesale price because the retailer assumes all the responsibility for marketing the product.

7. Price Lining - Carrying a range of items at different price levels to meet the needs of a wide variety of customers.

8. Discount Merchandising - Taking a lower markup on sales in hopes of building enough sales to realize profits through more efficient operations. Often involves elimination of many services and frills to keep operating expenses to a minimum.

9. Profit vs Growth - Many decisions about your business will be affected by your attitudes towards taking profits out of the business or leaving the money in to finance future growth.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix C in transparency form or draw the six control valves on the board and label them. Use chalk or a marker to show hypothetical settings on the "valves" to meet various situations as loss leaders, penetration and skimming pricing and the use of varying levels of promotion to offset lower levels of other elements, competitive situations and the maturing process in the life cycle of a product.*

## Marketing Strategy Game

The remainder of the class session will be devoted to a marketing strategy game to demonstrate the affect of marketing decisions and competition on the success of a product. Divide the class into four teams designated: 1) Arthur's Chicken Coop, 2) Better Stop Inn, 3) Chicken Hutch, and 4) Dandy Diner, and have the students arrange themselves into four separate work areas.

1. Distribute a copy of the games rules (Appendix D) to each student. Allow 5 minutes for studying the rules and answering any questions about them.

2. Have each restaurant designate a reporter and give the reporters a copy of the worksheet (Appendix E).

3. Allow 25 minutes for the teams to discuss their marketing strategy, select a restaurant alternative and allocate their marketing budget.

4. Distribute the results calculation sheet (Appendix F) to students and work out the necessary calculation on the chalkboard. You will need a calculator to determine the results.

    a. Enter the fractions using each company's score as the numerator and the highest company score as the denominator.
    b. Multiply the number of meals available for sale by this fraction. The restaurant with the highest score will therefore sell 100% of its meals and lower scores will result in proportionately less sales. (Round down to whole meals.)
    c. Multiply the meals sold by the price to determine total revenue.
    d. Multiply the meals sold by the per-meal cost to determine total cost.
    e. Subtract total cost from total revenue to get net profit.
    f. Students may enter the results on Appendix F.

5. Use the remaining time to explain the mechanics of the game and show how various decisions affect the outcome. It may even be beneficial to have the class play it for a second year of business. This could be done by allowing each company to double the first years net profit and use that amount in place of the first years $100,000 investment. If restaurants wish to change positioning alternatives, reduce their marketing budget by a $1,000 remodeling charge for each point moved in either direction.

## PART V. Summary

A. The 6 P's of marketing are: Positioning, Product, Price, Packaging, Promotion and Physical Distribution.

B. A marketing strategy is an overall marketing plan for getting your product to your customers in the best possible way.

C. The Marketing Strategy Game provides class members with a meaningful experience in developing a competitive marketing strategy for one of four restaurants.

## PART VI. Unit Evaluation Instruments and/or Techniques

The Marketing Strategy Game serves as the evaluation instrument for this module. Experiencing the activities with reinforcement through a follow-up discussion on how the various decisions affect the outcome of the game should provide the student with an understanding of the dynamics of the market place and an appreciation for the planning process in marketing decision making.

## PART VII. Transparency Masters and Other Teaching Support Materials

Glossary of Terms
Appendix A - Attention Focuser
Appendix B - Key Question 1
Appendix C - Key Question 2
Appendix D - Game Rules, The Marketing Strategy Game
Appendix E - The Marketing Strategy Game Worksheet
Appendix F - The Marketing Strategy Game - Results Calculation Sheet
Appendix G - Results Calculation Sheet & Worksheet Samples

## GLOSSARY OF TERMS

Customers - A person who buys, especially one who buys from or patronizes an establishment regularly.

Discount - A reduction from a usual or listed price.

Loss Leader Pricing - A pricing strategy of selling a popular item or brand at or below cost in order to attract customers in to your store in hopes that they will buy additional merchandise at your normal markup.

Margin - The difference between the cost and the selling price of goods manufactured, produced or sold.

Mark Up - The amount added to the cost to cover overhead and profit in arriving at the selling price.

Merchandise - The goods a merchant has for sale.

Operating Expenses - Any expense incurred by a business in the normal operation of the business.

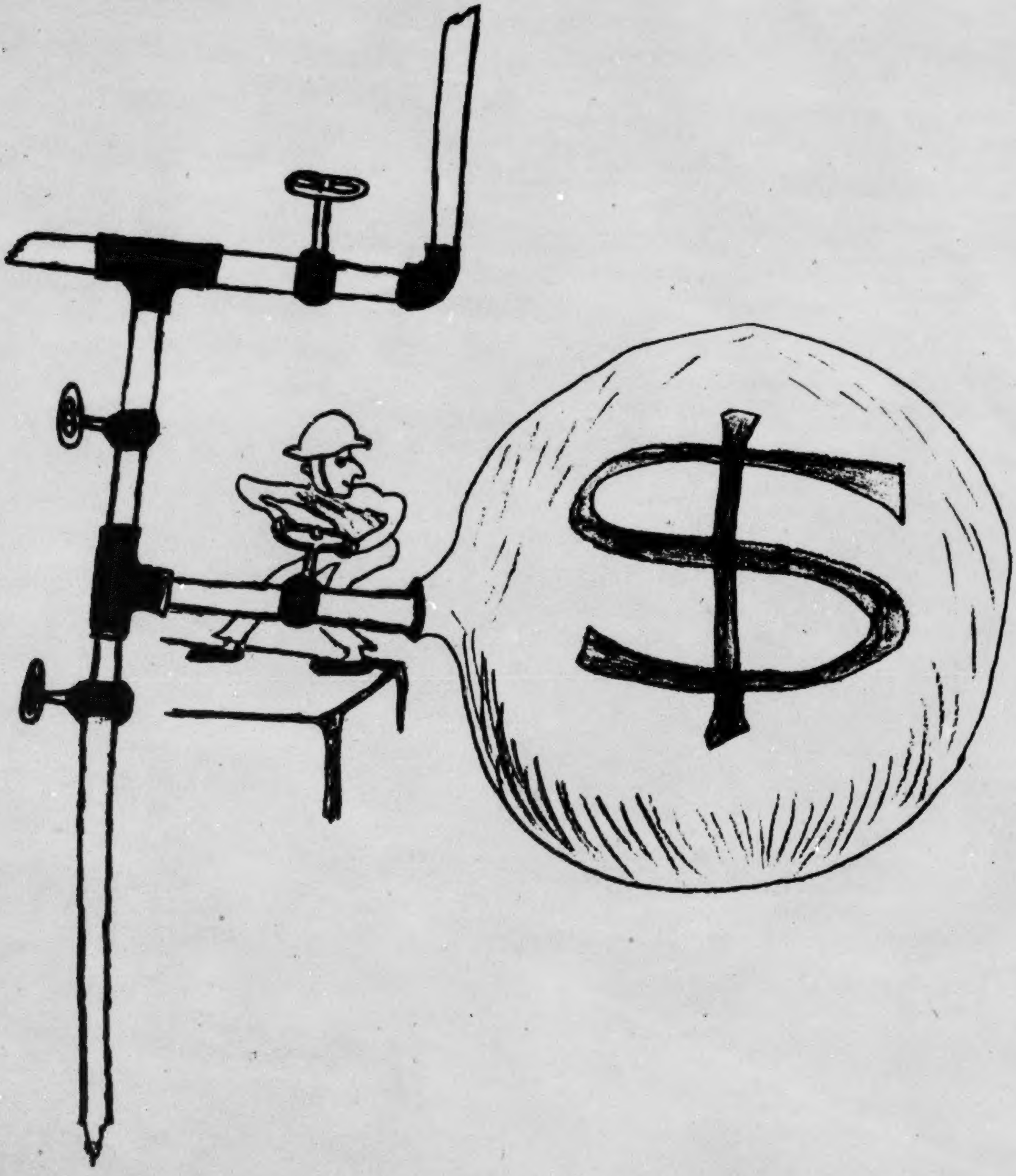
Penetration Pricing - A strategy of introducing a new product at an artificially low or subsidized (through coupons, cents-off deals, etc.) price to get customers to try the product.

Service - Delivery or performing a task or service for a customer usually with few materials being sold; largest cost or expense item is the labor cost.

Skimming Pricing - A pricing strategy of introducing a new product at a high price to maximize profits and recover introductory costs. As the product matures the price would be reduced to sustain sales and broaden popularity.

# APPENDIX A

# MARKETING MACHINE



# APPENDIX B

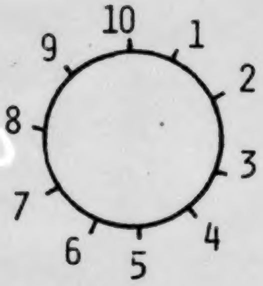
## KEY QUESTION 1. WHAT ARE THE KEY ELEMENTS IN THE MARKETING PROCESS?

1. POSITIONING
2. PRODUCT
3. PRICE
4. PACKAGING
5. PROMOTION
6. PHYSICAL DISTRIBUTION

# APPENDIX C

KEY QUESTION 2. WHAT IS MEANT BY THE TERM "MARKETING STRATEGY?"

THE OVERALL PLAN YOU USE TO OVERCOME YOUR MARKETING OBSTACLES AND ATTAIN YOUR GOALS.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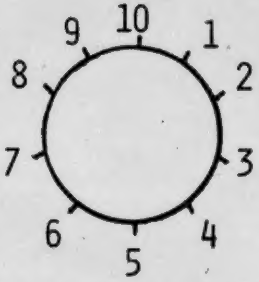
POSITIONING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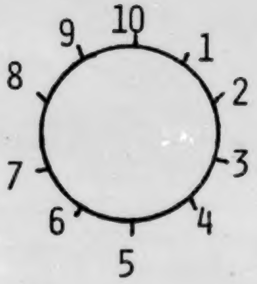
PRODUCT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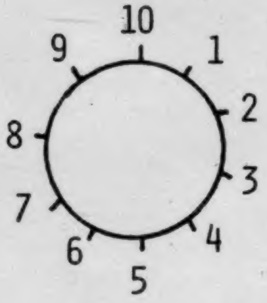
PRICE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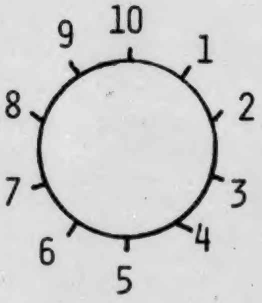
PACKAGING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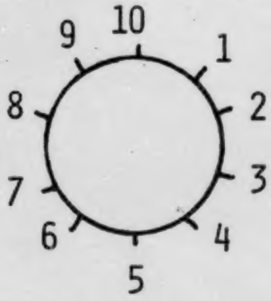
PROMOTIONAL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PHYSICAL DISTRIBUTION

# APPENDIX D

## GAME RULES - THE MARKETING STRATEGY GAME

You are a member of the Marketing Management team of one of our companies about to build or buy restaurants in a college community of 15,000 population. Your main product will be a chicken dinner.

1. You have a marketing budget of $100,000 with which to develop a restaurant and pay operational costs of selling the chicken for the first year.

2. Use the worksheet (Appendix E) to allocate your marketing budget on a cents-per-unit basis to arrive at a total cost per meal. Enter the appropriate cost and score.

   a. Positioning is the development cost of determining how you present your product to the market. You can spend from .01¢ to .10¢ per meal, depending on how elaborate a restaurant you decide to build. See next page for the description.
   b. Product costs per meal vary from .45¢ to $1.35 depending on the portion size and extras.
   c. Packaging ranges from .05¢ for a paper plate to .23¢ for a placemat, china plate, etc.
   d. Promotion costs for advertising and sale promotion activities may be budgeted from .10¢ to .25¢ per meal.
   e. Physical distribution involves how, when and where your product will be presented to your ultimate consumer. Costs range from .11¢ to .20¢ per meal.

3. Total the per-meal cost and divide the result into the $100,000 to determine how many meals you will have available for sale.

4. Determine your selling price from the distribution with the understanding that low prices may encourage sales but reduce profits. Higher prices will result in more revenue per sale but may reduce your number of sales and share of the market. Enter the appropriate price and score on your worksheet.

5. Turn in your completed worksheet to your instructor who will calculate the results. The restaurant with the highest net profit is the winner.

## Positioning Alternatives

Score

1. Small shop featuring pre-cooked portions which are heated in a microwave oven and served on a paper plate. Stand up eating or take out.

2. Small shop featuring pre-cooked portions which are heated in a microwave oven and served in a basket. Self-service with booths and tables.

4. Batch deep fat fried with warming oven. Carry out with limited booth seating.

5. Batch deep fat fried served in individual boxes. Ample indoor seating.

7. Bar-B-Que or regular pan fried. Drive-in self-service with crushed rock parking lot.

8. Bar-B-Que, pan fried or extra crispy. Black top parking lot, covered stalls with electric ordering microphones and car-hop delivery.

10. Broaster cooker for cooking individual orders. Self-service and seating in booths. Served in pre-printed barn shaped boxes.

11. Broaster cooker with waitress service at indoor and outdoor round picnic tables. Served on reusable plastic trays with paper plate inserts.

14. Individually cooked to-order, waitress, served in plastic baskets with paper liners.

16. Individually cooked to order. Waitress service. Table seating with red checked table cloths, china plates and stainless utensils.

## Product Alternatives

1. Two, small pieces of chicken; wing, drumstick or thigh. Roll and small cup of mashed potatoes with gravy.

2-14. Size, quality and quantity of chicken pieces increase proportional to score. Extras also increase to include salad, extra rolls, choice of potatoes, beverages, desert, towelette, etc.

17. Three, large pieces of chicken (choice); salad, relish, bread basket, choice of potato and beverage.

## Packaging Alternatives

Score

7. Served on paper plate with small napkin, or wrapped in napkin and placed in paper bag for carry out.

8-15\. Serving containers change from paper plates to boxes, styrofoam containers or glass plates. Extras served in comparable containers.

16. Served with stainless utensils on china dishes and placemats.

## Promotion Alternatives

1. Building sign and brief add in weekly shopper distributed door-to-door within trade area.

2-16\. Increasing number of media advertisements to include coupon specials.

17. TV and newspaper advertising, restaurant name on placemats and napkins.

## Physical Distribution Alternatives

1. Order and pickup at counter; standup eating or take out.

2-14\. Service increases to include waitresses, booths, tables, etc.

16. Table seating; waitress ordering and serving.

# APPENDIX E

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant ____________________

**Example**

Score → 4 / .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | | |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | | |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | | |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | | |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | | |

Total Cost Per Meal = ______

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | xxxx | |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = ______

________________ Meals Available For Sale

Total Cost Per Meal ________/$100,000

# APPENDIX F

## MARKETING STRATEGY GAME --- RESULTS CALCULATION SHEET

| | Score/ Highest Score | x | Meals Avail. For Sale | = | Meals Sold | x | Price | = | Total Revenue | Meals Sold | x | Cost/ Meal | = | Total Cost | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arthur's Chicken Coop | ___/___ | | _______ | | _______ | @ | _______ | | _______ | _______ | x | _______ | = | _______ | |
| | | | | | | | | | | | | | | Total Revenue | __________ |
| | | | | | | | | | | | | | | - Total Cost | __________ |
| | | | | | | | | | | | | | | Net Profit | __________ |
| Better Stop In | ___/___ | | _______ | | _______ | @ | _______ | | _______ | _______ | x | _______ | = | _______ | |
| | | | | | | | | | | | | | | Total Revenue | __________ |
| | | | | | | | | | | | | | | - Total Cost | __________ |
| | | | | | | | | | | | | | | Net Profit | __________ |
| Chicken Hutch | ___/___ | | _______ | | _______ | @ | _______ | | _______ | _______ | x | _______ | = | _______ | |
| | | | | | | | | | | | | | | Total Revenue | __________ |
| | | | | | | | | | | | | | | - Total Cost | __________ |
| | | | | | | | | | | | | | | Net Profit | __________ |
| Dandy Diner | ___/___ | | _______ | | _______ | @ | _______ | | _______ | _______ | x | _______ | = | _______ | |
| | | | | | | | | | | | | | | Total Revenue | __________ |
| | | | | | | | | | | | | | | - Total Cost | __________ |
| | | | | | | | | | | | | | | Net Profit | __________ |

# APPENDIX G

## MARKETING STRATEGY GAME --- RESULTS CALCULATION SHEET

| | Score/ Highest Score | x | Meals Avail. For Sale | = | Meals Sold | x | Price | = | Total Revenue | Meals Sold | x | Cost/ Meal | = | Total Cost | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arthur's Chicken Coop | 51 / 51 | | 138,888 | | 138,888 | @ | 1.09 | | 151,387 | 138,888 | x | .72 | = | 100,000 | | |
| | | | | | | | | | | | | | | | Total Revenue | 151,387 |
| | | | | | | | | | | | | | | | - Total Cost | 100,000 |
| | | | | | | | | | | | | | | | Net Profit | 51,387 |
| Better Stop In | 34 / 51 | | 95,238 | | 63,478 | @ | 2.19 | | 139,016 | 63,478 | x | 1.05 | = | 66,651 | | |
| | | | | | | | | | | | | | | | Total Revenue | 139,016 |
| | | | | | | | | | | | | | | | - Total Cost | 66,651 |
| | | | | | | | | | | | | | | | Net Profit | 72,365 |
| Chicken Hutch | 46 / 51 | | 78,125 | | 70,426 | @ | 2.39 | | 168,318 | 70,426 | x | 1.28 | = | 90,145 | | |
| | | | | | | | | | | | | | | | Total Revenue | 168,318 |
| | | | | | | | | | | | | | | | - Total Cost | 90,145 |
| | | | | | | | | | | | | | | | Net Profit | 78,173 |
| Dandy Diner | 51 / 51 | | 66,666 | | 66,666 | @ | 2.99 | | 199,331 | 66,666 | x | 1.50 | = | 100,000 | | |
| | | | | | | | | | | | | | | | Total Revenue | 199,331 |
| | | | | | | | | | | | | | | | - Total Cost | 100,000 |
| | | | | | | | | | | | | | | | Net Profit | 99,331 |

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant A

**Example**

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 1 | .01 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 1 | .45 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 7 | .05 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 1 | .10 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 1 | .11 |

Total Cost Per Meal = .72

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 40 | 1.09 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 51

138,888 Meals Available For Sale

Total Cost Per Meal .72 /$100,000

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant B

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 4 | .03 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 3 | .65 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 9 | .07 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 8 | .17 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 3 | .13 |

Total Cost Per Meal = 1.05

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 7 | 2.19 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 34

95,238 Meals Available For Sale

Total Cost Per Meal 1.05 /$100,000

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant C

Example

Score → 4<br>.03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 8 | .06 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 4 | .75 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 10 | .11 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 10 | .19 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 8 | .17 |
| | | | | | | | | | | | Total Cost Per Meal = | 1.28 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 6 | 2.39 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 46 | |

78,125 Meals Available For Sale

Total Cost Per Meal 1.28 /$100,000

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant D

**Example**

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 11 | .08 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 8 | .95 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 9 | .07 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 16 | .24 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 6 | .16 |

Total Cost Per Meal = 1.50

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 1 | 2.99 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 51

66.666 Meals Available For Sale

Total Cost Per Meal 1.50 /$100,000

MARKETING STRATEGY GAME --- RESULTS CALCULATION SHEET

| | Score/ Highest Score | x | Meals Avail. For Sale | = | Meals Sold | x | Price | = | Total Revenue | Meals Sold | x | Cost/ Meal | = | Total Cost | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arthur's Chicken Coop | 54/59 | | 68,027 | | 62,262 | @ | 1.99 | | 123,901 | 62,262 | x | 1.47 | = | 91,525 | |
| | | | | | | | | | | | | | | Total Revenue | 123,901 |
| | | | | | | | | | | | | | | - Total Cost | 91,525 |
| | | | | | | | | | | | | | | Net Profit | 32,376 |
| Better Stop In | 55/59 | | 62,111 | | 57,860 | @ | 2.19 | | 126,713 | 57,860 | x | 1.61 | = | 93,154 | |
| | | | | | | | | | | | | | | Total Revenue | 126,713 |
| | | | | | | | | | | | | | | - Total Cost | 93,154 |
| | | | | | | | | | | | | | | Net Profit | 33,559 |
| Chicken Hutch | 52/59 | | 81,300 | | 71,604 | @ | 2.59 | | 185,454 | 71,604 | x | 1.23 | = | 88,072 | |
| | | | | | | | | | | | | | | Total Revenue | 185,454 |
| | | | | | | | | | | | | | | - Total Cost | 88,072 |
| | | | | | | | | | | | | | | Net Profit | 97,382 |
| Dandy Diner | 59/59 | | 58,823 | | 58,823 | @ | 2.99 | | 175,880 | 58,823 | x | 1.70 | = | 99,999 | |
| | | | | | | | | | | | | | | Total Revenue | 175,880 |
| | | | | | | | | | | | | | | - Total Cost | 99,999 |
| | | | | | | | | | | | | | | Net Profit | 75,881 |

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant A

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 7 | .05 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 8 | .95 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 10 | .11 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 10 | .19 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 8 | .17 |

Total Cost Per Meal = 1.47

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 11 | 1.99 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 54

Total Cost Per Meal 1.47 /$100,000 68,027 Meals Available For Sale

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant B

Example

Score →

| | |
|---|---|
| 4<br>.03 | ← Cost/Meal |

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 7 | .05 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 10 | 1.05 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 11 | .13 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 14 | .22 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 6 | .16 |
| | | | | | | | | | | Total Cost Per Meal = | | 1.61 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 7 | 2.19 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 55 | |

62,111 Meals Available For Sale

Total Cost Per Meal 1.61 /$100,000

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant C

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Positioning** | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 8 | .06 |
| **Product** | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 10 | .65 |
| **Packaging** | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 12 | .15 |
| **Promotion** | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 14 | .22 |
| **Physical Distribution** | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 4 | .15 |

Total Cost Per Meal = 1.23

| | | | | | | | | | | | Score | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Price** | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 4 | 2.59 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 52

Total Cost Per Meal 1.23 /$100,000 = 81,300 Meals Available For Sale

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant D

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

|  |  |  |  |  |  |  |  |  |  |  | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 10 | .07 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 10 | 1.05 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 12 | .15 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 16 | .24 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 10 | .19 |
|  |  |  |  |  |  |  |  |  |  | Total Cost Per Meal = |  | 1.70 |

|  |  |  |  |  |  |  |  |  |  |  |  | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 1 | 2.99 |
|  | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 |  |  |  | xxxx |  |
|  |  |  |  |  |  |  |  |  |  | Total Score = | 59 |  |

Total Cost Per Meal 1.70 /$100,000 58,823 Meals Available For Sale

# MARKETING STRATEGY GAME --- RESULTS CALCULATION SHEET

| | Score/ Highest Score | x | Meals Avail. For Sale | = | Meals Sold | x | Price | = | Total Revenue | Meals Sold | x | Cost/ Meal | = | Total Cost |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arthur's Chicken Coop | 71/71 | | 60,925 | | 60,975 | @ | 2.99 | | 182,365 | 60,925 | x | 1.64 | = | 100,000 |
| Better Stop In | 50/71 | | 93,457 | | 65,800 | @ | 2.19 | | 144,102 | 65,800 | x | 1.07 | = | 70,406 |
| Chicken Hutch | 57/71 | | 59,523 | | 47,766 | @ | 2.79 | | 133,267 | 47,766 | x | 1.68 | = | 80,246 |
| Dandy Diner | 66/71 | | 91,743 | | 85,275 | @ | 1.39 | | 118,532 | 85,275 | x | 1.09 | = | 92,950 |

**Arthur's Chicken Coop**

Total Revenue 182,365
- Total Cost 100,000
Net Profit 82,365

**Better Stop In**

Total Revenue 144,102
- Total Cost 70,406
Net Profit 73,696

**Chicken Hutch**

Total Revenue 133,267
- Total Cost 80,246
Net Profit 53,021

**Dandy Diner**

Total Revenue 118,532
- Total Cost 92,950
Net Profit 25,582

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant A

**Example**

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 16 | .10 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 6 | .85 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 15 | .21 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 17 | .25 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 16 | .23 |

Total Cost Per Meal = 1.64

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 1 | 2.99 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 71

Total Cost Per Meal 1.64 /$100,000 = 60,975 Meals Available For Sale

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant B

Example

Score → 4<br>.03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 11 | .08 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 1 | .45 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 13 | .17 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 12 | .20 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 6 | .16 |
| | | | | | | | | | | Total Cost Per Meal = | | 1.07 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 7 | 2.19 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 50 | |

Total Cost Per Meal 1.07 /$100,000 93,457 Meals Available For Sale

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant C

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 10 | .07 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 10 | 1.05 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 13 | .17 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 12 | .20 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 10 | .19 |

Total Cost Per Meal = 1.68

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 2 | 2.79 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 57

59,523 Meals Available For Sale

Total Cost Per Meal 1.68 /$100,000

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant D

**Example**

Score → 4 .03 ← Cost/Meal

| Score | Cost/Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 7 | .05 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 2 | .55 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 11 | .13 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 12 | .20 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 6 | .16 |
| | | | | | | | | | | | Total Cost Per Meal = | 1.09 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 28 | 1.39 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 66 | |

91,743 Meals Available For Sale

Total Cost Per Meal 1.09 /$100,000

# MARKETING STRATEGY GAME --- RESULTS CALCULATION SHEET

| | Score/ Highest Score | x | Meals Avail. For Sale | = | Meals Sold | x | Price | = | Total Revenue | Meals Sold | x | Cost/ Meal | = | Total Cost |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Arthur's Chicken Coop | 83/83 | | 46,296 | | 46,296 | @ | 2.99 | | 138,425 | 46,296 | x | 2.16 | = | 100,000 |

Total Revenue 138,425

- Total Cost 100,000

Net Profit 38,425

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Better Stop In | 72/83 | | 49,019 | | 42,480 | @ | 2.79 | | 118,519 | 42,480 | x | 204 | = | 86,659 |

Total Revenue 118,519

- Total Cost 86,659

Net Profit 31,860

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chicken Hutch | 67/83 | | 54,347 | | 43,818 | @ | 2.59 | | 113,488 | 43,818 | x | 1.84 | = | 80,625 |

Total Revenue 113,488

- Total Cost 80,625

Net Profit 32,863

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dandy Diner | 56/83 | | 59,523 | | 40,152 | @ | 2.99 | | 120,054 | 40,152 | x | 1.68 | = | 67,455 |

Total Revenue 120,054

- Total Cost 67,455

Net Profit 52,599

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant A

**Example**

Score → 4 / .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 16 | .10 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 17 | 1.35 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 16 | .23 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 17 | .25 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 16 | .23 |
| | | | | | | | | | | | Total Cost Per Meal = | 2.16 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 1 | 2.99 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 83 | |

Total Cost Per Meal $\frac{46,296}{2.16 \,/\$100,000}$ Meals Available For Sale

## THE MARKETING STRATEGY GAME WORKSHEET

Restaurant B

**Example**

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Positioning** | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 14 | .09 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 17 | 1.35 |
| **Packaging** | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 13 | .17 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 16 | .24 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 10 | .19 |

Total Cost Per Meal = 2.04

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 2 | 2.79 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 72

49,019 Meals Available For Sale

Total Cost Per Meal 2.04 /$100,000

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant c

Example

Score → 4 .03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 11 | .08 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 12 | 1.15 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 14 | .19 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 14 | .22 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 12 | .20 |

Total Cost Per Meal = 1.84

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 4 | 2.59 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |

Total Score = 67

54,347 Meals Available For Sale

Total Cost Per Meal 1.84 /$100,000

# THE MARKETING STRATEGY GAME WORKSHEET

Restaurant D

**Example**

Score → 4<br>.03 ← Cost/Meal

| Score | Cost/ Meal |
|---|---|
| 4 | .03 |

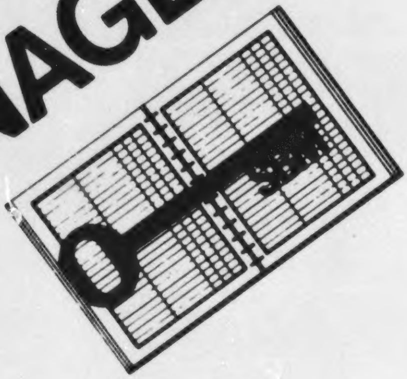
| | | | | | | | | | | | Score | Cost/ Meal |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Positioning | 1<br>.01 | 2<br>.02 | 4<br>.03 | 5<br>.04 | 7<br>.05 | 8<br>.06 | 10<br>.07 | 11<br>.08 | 14<br>.09 | 16<br>.10 | 10 | .07 |
| Product | 1<br>.45 | 2<br>.55 | 3<br>.65 | 4<br>.75 | 6<br>.85 | 8<br>.95 | 10<br>1.05 | 12<br>1.15 | 14<br>1.25 | 17<br>1.35 | 10 | 1.05 |
| Packaging | 7<br>.05 | 8<br>.07 | 9<br>.09 | 10<br>.11 | 11<br>.13 | 12<br>.15 | 13<br>.17 | 14<br>.19 | 15<br>.21 | 16<br>.23 | 13 | .17 |
| Promotion | 1<br>.10 | 2<br>.12 | 4<br>.14 | 6<br>.15 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.22 | 16<br>.24 | 17<br>.25 | 12 | .20 |
| Physical Distribution | 1<br>.11 | 2<br>.12 | 3<br>.13 | 4<br>.15 | 6<br>.16 | 8<br>.17 | 10<br>.19 | 12<br>.20 | 14<br>.21 | 16<br>.23 | 10 | .19 |
| | | | | | | | | | | Total Cost Per Meal = | | 1.68 |

| | | | | | | | | | | | | Meal Price |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Price | 1<br>2.99 | 2<br>2.79 | 4<br>2.59 | 6<br>2.39 | 7<br>2.19 | 9<br>2.09 | 11<br>1.99 | 13<br>1.89 | 16<br>1.79 | 19<br>1.69 | 1 | 2.99 |
| | 22<br>1.59 | 25<br>1.49 | 28<br>1.39 | 32<br>1.29 | 36<br>1.19 | 40<br>1.09 | 45<br>.99 | | | | xxxx | |
| | | | | | | | | | | Total Score = | 56 | |

59,523 Meals Available For Sale

Total Cost Per Meal 1.68 /$100,000

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 8

# Sales

For Adult and/or Post Secondary Instruction

# Module #8

# SALES

## PART I. Introduction

One of the most critical skills in determining the success of a business owner is the ability and desire to sell. Too many businesses fail or remain marginal because the owner can't sell, or doesn't want to sell. You may be lucky enough to hire someone to do the selling for you, but without close supervision and constant motivation this scheme will often fail to achieve adequate sales.

You can invest lots of money and build a beautiful business place, but until something gets sold nothing happens with respect to paying bills or earning a profit. Inadequate sales volume is one of the prime reasons for business failure.

## PART II. Objectives (Behavioral)

A. Following a discussion of the individual characteristics needed to be a successful seller the student will be able to identify the three major characteristics of knowledge, skills and positive attitude, and three key areas under each of the three major characteristics.

B. Following a discussion of sales promotion techniques the student will be able to identify at least four techniques a small business could use to attract customers.

C. Given examples of the calculations used to determine the selling price of goods or services, and an opportunity to discuss variations in the calculation procedure the student will be able to accurately complete three examples dealing with selling price.

## PART III. Transition of Modules

Module #7 dealt with the mixing of various marketing "tools" to optimize sales. This module discusses the importance of personal selling and the skills, knowledge and attitude that are essential to sales success. The next module will cover cash flow in a business and illustrate a system to prevent running out of cash.

## PART IV. The Lesson

### *Attention Focuser*

*Your new business is ready for a grand opening. Merchandise has been displayed attractively and your sales workers are present, waiting for you to unlock the door to let the first customers in. At the moment* *you open the door for the first time what do you think will most determine if you have a successful business day?*

NOTE: Allow a general discussion to flow from students. Accept all ideas, summarizing each of them on the chalkboard if possible. While purchasing, marketing, training of employees and good management are important, at this specific time in the operation of the business success will be determined by sales of an adequate volume. Close the discussion by stating that the module will deal with some of the important aspects of the sale function.

KEY QUESTION 1. What characteristics are essential to successful selling?

In order to be successful at selling, the small business owner and his/her sales employees must have:

1. Knowledge of:

    a. Customers - Who are they, how much money do they have to spend, what do they want to buy, and what are the deciding factors on where and when they shop and what they buy.
    b. Product - What do you have to sell? How and with what materials is it made and what type of satisfaction might the consumer have from buying your product or service?
    c. Competition - Who are they, how strong are they and how are they liable to react to your entry into the market. How are they likely to retaliate and what will that do to your marketing projections.
    d. The Market - How is it presently structured. How are the needs of the customers presently being met and how can you meet those needs more efficiently and yet profitably. What changes can you predict in the market in terms of growth, changing consumption patterns and marketing or sales techniques.
    e. Yourself - How well do you know your likes and dislikes. Do you have technical knowledge and expertise to gain the confidence of your customers. What image do you project to others in terms of physical appearances, tact, personality, professionalism, intelligence and integrity. And are you willing to learn how to improve yourself in these areas?

Knowledge is generally an intellectual exercise. Your knowledge can be increased by formal education, self study or by observation. How much you learn, how well and how quickly is obviously an individual matter that is highly dependent on your intelligence and your motivation. The latter is the most important factor as the books on selling are full of examples of people of average ability who piled up tremendous success based on self-confidence, hardwork and a burning desire to succeed.

2. Skills such as:

   a. Listening - Can you ask the right questions to find out what the customer is looking for before you start trying to sell. Can you "read" your customers to determine whether they are satisfied or not. Can you pinpoint customer gripes in time to do something about them in order to save the sale or steer the customer to a more appropriate choice.
   b. Presentation - Do you know how to handle and show the merchandise to its best advantage. Do you know what features to demonstrate and what to say about your product in a way that will accentuate the good points and alleviate any concerns or fears the customer might have.
   c. Persuasion - Can you quickly establish a rapport with your customer that will develop into a trusting relationship. Can you convince the customer that yours is the best product or service to meet his/her needs and that your prices are right, your delivery is realistic and that you will provide service after the sale. Obviously a good reputation or recommendations from satisfied customers will be most helpful to a new business.
   d. Closing - Asking for the order is often the most difficult yet the most critical part of selling. Until you get the customers O.K. through a handshake, a down payment or a signature the selling job is not done. An added frustration occurs in selling big ticket items that are subject to a credit check or approval of bank financing. The true professional salesperson develops techniques of sliding into the close smoothly so that the customer is satisfied with the deal and doesn't get "cold feet" or decide to "shop around" a bit more before deciding.
   e. Mathematics of Selling - How to calculate the price, write up the order, figure sales tax,

compute finance charges, make change and many other math calculations are essential skills in selling. Errors not only cost you money but may cause hard feelings and a loss of confidence.

Skills must be acquired through training and practice. Many books have been written about the essential skills of selling, but no amount of reading will develop your particular skills. Hands-on experience is essential because you have to develop your own style of selling and perfect the skills in a manner consistant with your own personality. Observation and role playing can help but your best bet is to work for someone who will train you properly and critique your efforts in a constructive way. As a business owner a continuing responsibility will be to train, observe and correct the skills of your sales employees.

3. Positive Attitudes:

   a. Enthusiasm - Do you sincerely enjoy selling? Are you proud of your business and the products that you represent and does this pride show through to the customer so that they can share your enthusiasm. Unless your customers are "sold" on the merchandise you may experience hesitation in purchasing, attempts to dicker on price, higher than normal returns or repair problems, difficulties in collecting accounts receivable and low repeat sales.
   b. Friendliness - Do you enjoy meeting people and can you greet customers in a way that earns their respect and attention rather than scaring them off or making them want to brouse around? Are you alert to their needs and questions without appearing to hover over them?
   c. Service - Do you have an honest desire to help others by providing information about your products or services to help the customer make an informed buying decision whether or not you get the sale. And after a sale is completed are you willing to stand behind your products to assure the customer satisfaction?
   d. Integrity - Are you honest and above board in all your dealings with your customers, suppliers and the public in general? Long term success is built on a reputation of honest dealings and even a hint of dishonesty can tarnish your reputation and ruin your business.

e. Confidence - The mark of a true professional business owner is the confidence that comes from thorough planning every step of the way. Know where you are going and what it will take to achieve your goals.

f. Tolerance - Everything isn't always going to fall into place for you. You will need the strength to carry on when your customers, employees, competitors or suppliers do things to cause frustration. If you let your problem interfere with your sales efforts you are in for big trouble.

g. Neatness - The attitudes you display in caring for your business and merchandise will affect your customers feelings about the quality that they are receiving. Housekeeping is an essential task in any business not only to keep your stock fresh looking and appealing, but to maintain your success image. Dirty windows and dusty merchandise are sure signs that a business is slipping and it makes your sales job even more difficult when your customers start wondering how much longer you can stay in business.

h. Caring - How do you really feel about your customers. Emphathy - the ability to put yourself in the other persons position - is essential in the selling situation. If you think of your customers as victims waiting to be plucked so that you can get rich quick your attitude is bound to give you away.

Attitudes are more difficult to change than knowledge or skills. Attitudes are based on value systems that vary with every individual and may change with the pressures of a given situation. The rewards for selling are often high but for most small business problems in selling can spell disaster.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use Appendix A in transparency form and cut out cardboard shapes as shown on Appendix A1. Lift out triangle 1 and explain the idea that an equalateral triangle has the largest area or sales success. By sliding pieces 2, 3 and 4 in the directions indicated you can reveal each of the major points as you discuss them.*

KEY QUESTION 2. What sales promotion techniques can a small business use to attract customers?

One of the biggest problems of most small businesses is to reach potential customers and encourage them to visit your place of business and do it on a reasonable budget. Advertising is usually expensive, however, if you can create a reason for people to visit your shop you can often attract traffic for little or no money. Whether you realize an increase in sales depends on reaching the right people at the right time. Some methods you might try are:

1. Open House - When you open your shop, remodel, add new merchandise lines or celebrate anniversaires, plan for newspaper or radio coverage of ribbon cutting ceremonies. Put on the coffee pot and get your suppliers to provide some prizes for a drawing.

2. Publicity - Learn how to use newspapers and magazines and radio stations to get your story told to the public. Get to know the editors and reporters and provide them with good reasons to tell about you and your business. Supply them with photographs, news releases and ideas for feature stories. Keep them informed about changes in your business, special events you are planning or the arrival of out-of-town guests or business associates. Also hiring, retirements and anniversaries may be news worthy.

3. Contests - Devise a contest that will keep customers coming back to your store. To be most effective the contest should apply to your business or product such as a photo contest for a camera store, recipe contest for a grocery store or food processor, an essay contest for a newspaper or bookstore or a sewing fair for a fabric store. Your prizes need not be large or expensive since recognition plays a large part in getting people to enter. The list of winners might make a good publicity release especially in local newspapers that like to print names.

4. Special Events - You can create an image of excitement and activity by conducting a continuing series of events such as holiday specials, seasonal promotions, anniversary or birthday events, community activities, sports tie-ins, historical events or theme promotions (circus, 4 H and FFA Activities, back-to-school, teachers conventions etc.). Your most efficient expenditure might be to cooperate with your Chamber of Commerce or local retailers group on several large promotional events throughout the year.

5. Price Reductions - Sales on selected merchandise or store wide events can be effective in reducing merchandise

overstocks, disposing of seasonal goods or slow moving items. To be effective the price reductions must be legitimate and must be large enough to attract customers and make them buy. The main purpose of the sale is to get rid of the merchandise fast so that you can put the cash back to work for you by buying more appropriate merchandise that will sell quicker.

Too many phoney sales or ones that seem to drag on too long may hurt your ability to sell merchandise at a full markup. A discount image is OK if you make sure that you keep your costs in line to maintain a profit.

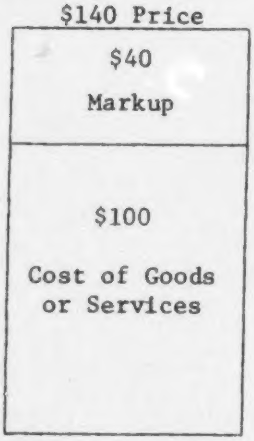
*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix B in transparency form to illustrate the major points as you discuss them.*

KEY QUESTION 3. How is the selling price of goods or services calculated?

1. Cost plus a markup (% of cost) to cover all selling and operating expenses, plus profit.

Example

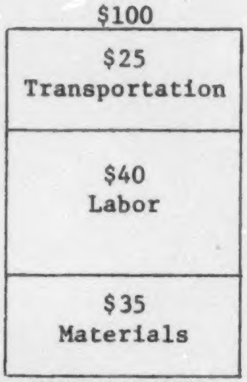


Markup = Cost + % of cost to cover selling expense

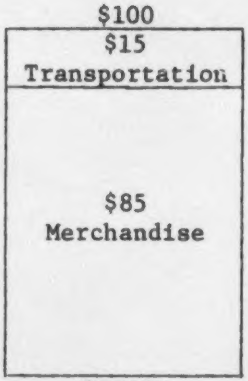
$100 + (40% of $100) = $140

Cost of Goods or Services may vary with the type of business:

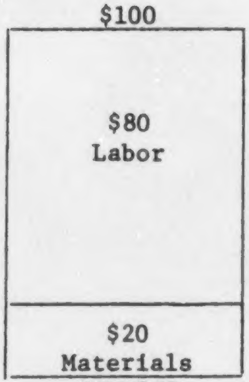
Example


$100
$25
Transportation
$40
Labor
$35
Materials

MANUFACTURING


$100
$15
Transportation
$85
Merchandise

RETAIL


$100
$80
Labor
$20
Materials

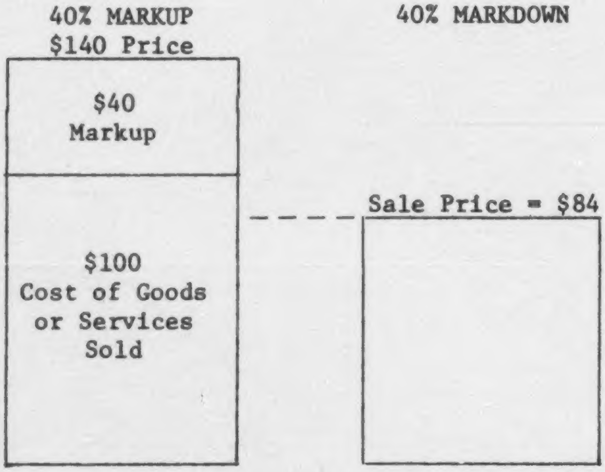
SERVICE

The percentage markup you use may be determined by:

a. Forecast your sales and expenses. Then calculate the markup required to give you the desired level of profit.
b. Industry average - find out what other like types of businesses are charging.
c. Suggested retail price - ask your suppliers what the "going rate" is in your area. Often your supplier will provide a price list or even preprint the merchandise with the retail price.
d. Competitive situations - depending on your situation you may wish to price below your competitors to increase sales volume or take reductions to cost or below in order to move inventory.

2. Markdown or discounts are calculated as a percentage reduction of the retail price.

Example


40% MARKUP
$140 Price
40% MARKDOWN
$40
Markup
$100
Cost of Goods
or Services
Sold
Sale Price = $84

Original Price
- (minus) Markdown
= Sales Price

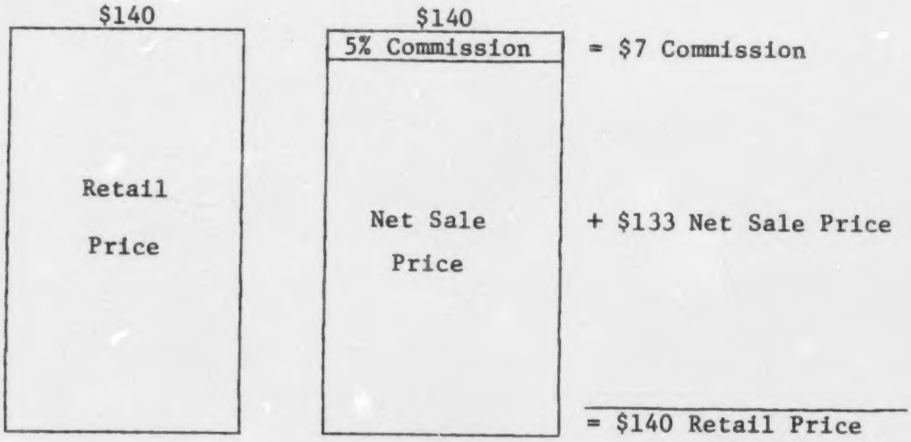
$140 x .40 = $56
$140 - $56 = $84

Original selling price is $140 for the product sold.

NOTE: A 40% reduction off of retail is not the same as a 40% markup of cost. In this example you would be selling the item at $16 under your cost. Discounts are often granted when selling to schools, churches or other businesses or on large orders where your costs might be reduced due to efficiency. These markdowns and discounts all have logical reasons but you must be aware of your price-cost relationship so that you know how you can reduce your price without hurting your business.

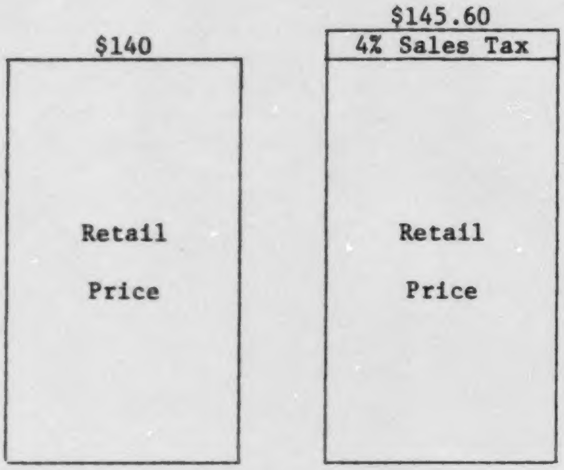
3. Bonuses or commissions are often used in business as a method of paying, not motivating sales people The commission is usually calculated as a percentage of the retail price so a 5% commission paid for selling a $140 item would be $7.

Example



4. Sales Tax - Most states have selective sales taxes on most items sold by retailers. The tax is usually calculated as a percentage of the retail price so that our $140 sale would cost the customer $145.60 including tax (at 4% tax).

Example



= $5.60 Sales Tax

+ $140.00 Retail Price

= $145.60 Retail Price including Sales Tax

*Suggested Teaching Strategy*

*Use Appendices C, C1, C2, C3 and C4 in transparency form to illustrate the major points as you discuss them.*

PART V. Summary

A. Knowledge, skills and attitudes will determine your success in selling.

B. Selling and increasing sales volume depends on reaching the right people at the right time, often through a series of sales promotion techniques.

C. Understanding how to price goods and services for sale is a basic skill every small business owner/operator must learn.

PART VI. Unit Evaluation Instrument and/or Techniques

After the presentation of the above material, students should complete the evaluation instrument on the following pages either as a classroom assignment or as homework to demonstrate their comprehension of the lesson material as presented.

## EVALUATION INSTRUMENT

## SALES

Name ______________________

1. Circle the answers which are correct. In order to be successful at selling the small business owner and sales employees must have knowledge of:

Product for Sale

Investment Credit

Customers

Financial situation of the business

Business Assets

Competition

The Market

Insurance Liabilities

2. Answer the following questions by circling "T" for true or "F" for false.

a. Publicity is any event that has news value. T F

b. Profit should not be a concern when determining a price reduction. T F

c. A contest should be developed to get customers in for a one time basis. T F

d. An open house is appropriate when opening a new store. T F

e. Commissions are used to reduce selling price to customers. T F

f. Sales tax is usually calculated as a percentage of the retail price. T F

g. The percentage markup you use may be determined by a suggested retail price. T F

h. An industry average shows what other like businesses are charging for a product or service. T F

i. You could not use a business forecast to calculate a markup percentage. T F

j. A 10% reduction off the retail price would not equal a 10% markup of cost. T F

## UNIT VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - Characteristics Essential to Successful Selling
Appendix A1 - Cut Out to be used with Appendix A
Appendix B - Sales Promotion Techniques
Appendix C - Determining Selling Price
Appendix C1 - What Makes Up Selling Price?
Appendix C2 - Markup vs Markdown
Appendix C3 - Calculating Commission Sales
Appendix C4 - Calculating Sales Tax
Appendix D - Evaluation Instrument Key

# GLOSSARY OF TERMS

Bonus - Extra payment over and above salary given to an employee.

Closing - To complete a sale with some formal agreement such as a down payment or signature.

Commission - A percentage of money taken in on sales given as pay to a sales clerk or agent.

Customer - A person who purchases goods or services.

Forecast - An itemized listing of anticipated income and expense for a period of time like a month or year, and often based on prior actual records.

Markdown - A reduction from a usual or listed price.

Marketing - All business activities involved in the moving of goods from the producer to the consumer.

Markup - The amount added to the cost to cover overhead and profit in arriving at the selling price.

Price - The amount of money asked or paid for goods or services.

Sale - The act of selling; exchange of property or services for an agreed sum of money.

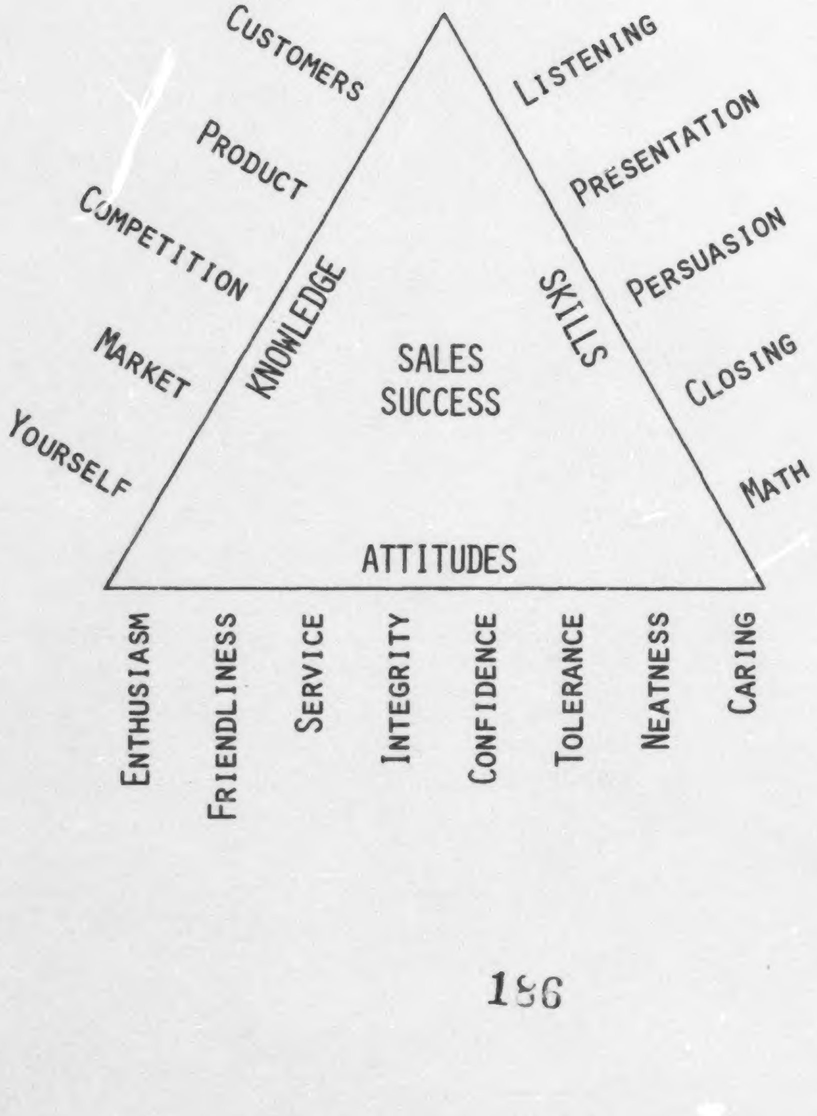
Sales Tax - A tax on sales and sometimes services, added to the price paid by the customer.

Service - Delivery or performing a task or service for a customer usually with few materials being sold; largest cost or expense item is labor cost.

Suppliers - Firms or individuals who supply goods and services necessary in the operation of a business.

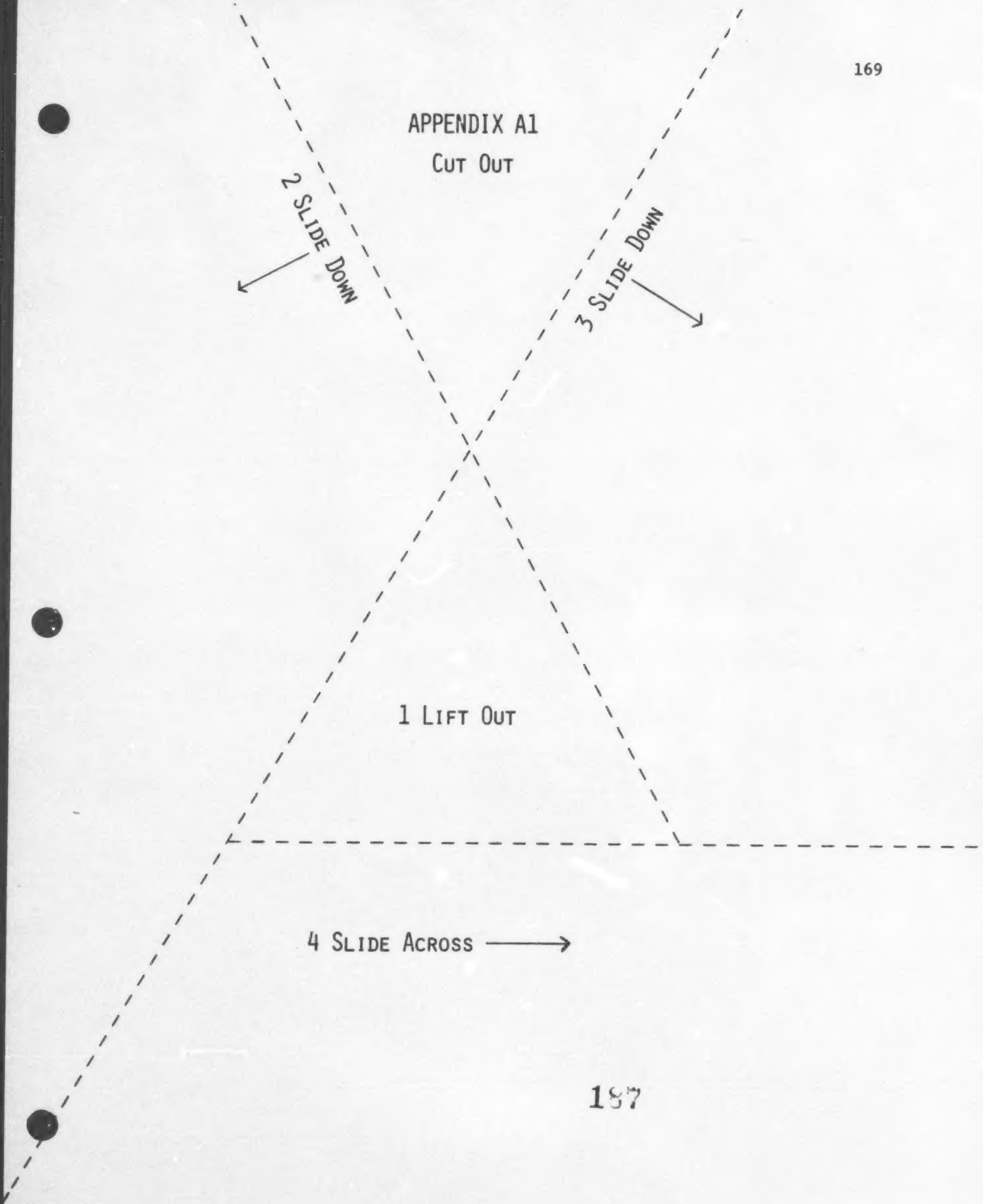
# APPENDIX A

## CHARACTERISTICS ESSENTIAL TO SUCCESSFUL SELLING


CUSTOMERS
PRODUCT
COMPETITION
MARKET
YOURSELF
KNOWLEDGE
SALES SUCCESS
SKILLS
LISTENING
PRESENTATION
PERSUASION
CLOSING
MATH
ATTITUDES
ENTHUSIASM
FRIENDLINESS
SERVICE
INTEGRITY
CONFIDENCE
TOLERANCE
NEATNESS
CARING

# APPENDIX A1

## Cut Out


2 Slide Down
3 Slide Down
1 Lift Out
4 Slide Across

# APPENDIX B

## SALES PROMOTION TECHNIQUES

1. OPEN HOUSE
   - A. NEW STORE OR LOCATION
   - B. NEW MERCHANDISE LINES
   - C. ANNIVERSARIES

2. PUBLICITY
   - A. ANY EVENT THAT HAS NEWS VALUE

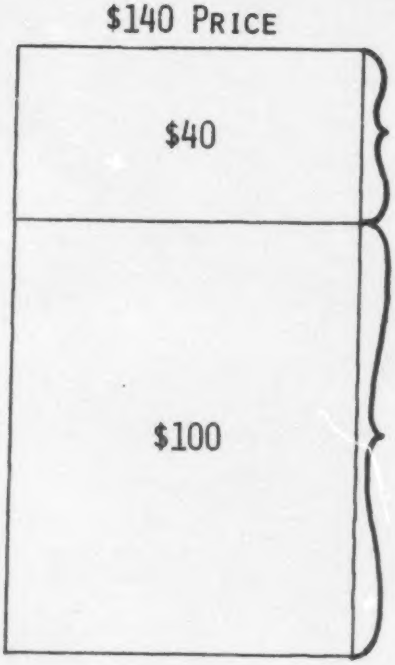
3. CONTESTS
   - A. DEVELOP REPEAT TRAFFIC
   - B. USE YOUR PRODUCTS
   - C. PUBLICIZE WINNERS

4. SPECIAL EVENTS
   - A. INDIVIDUAL STORE EVENTS
   - B. COMMUNITY SPONSORSHIP

5. PRICE REDUCTIONS
   - A. MOVE UNWANTED MERCHANDISE QUICKLY

# APPENDIX C

## DETERMINING SELLING PRICE



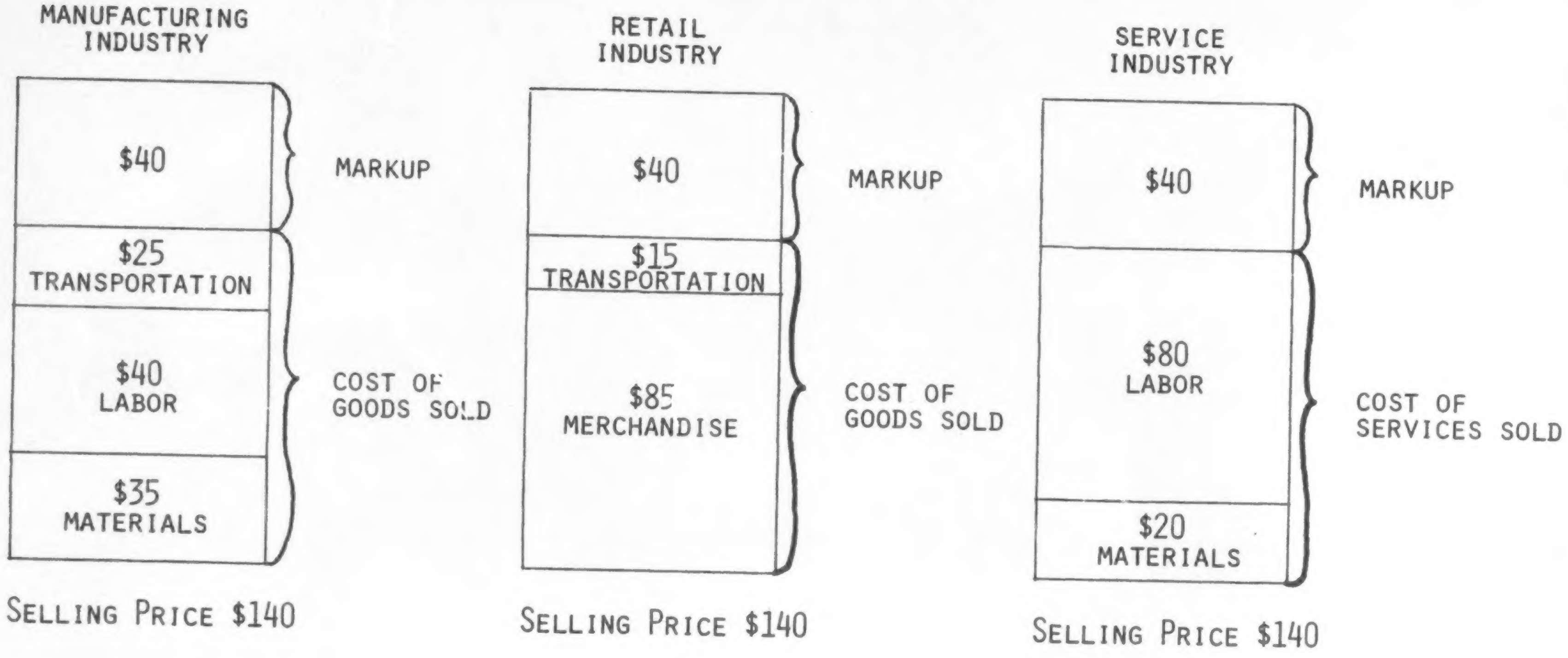
MARKUP = .40 x $100 = $40
$40/$100 = .40 OF COST OF GOODS OR SERVICES SOLD

COST OF GOODS OR SERVICES SOLD

COST OF GOODS OR SERVICES SOLD + MARKUP = SELLING PRICE
$100 + $40 = $140

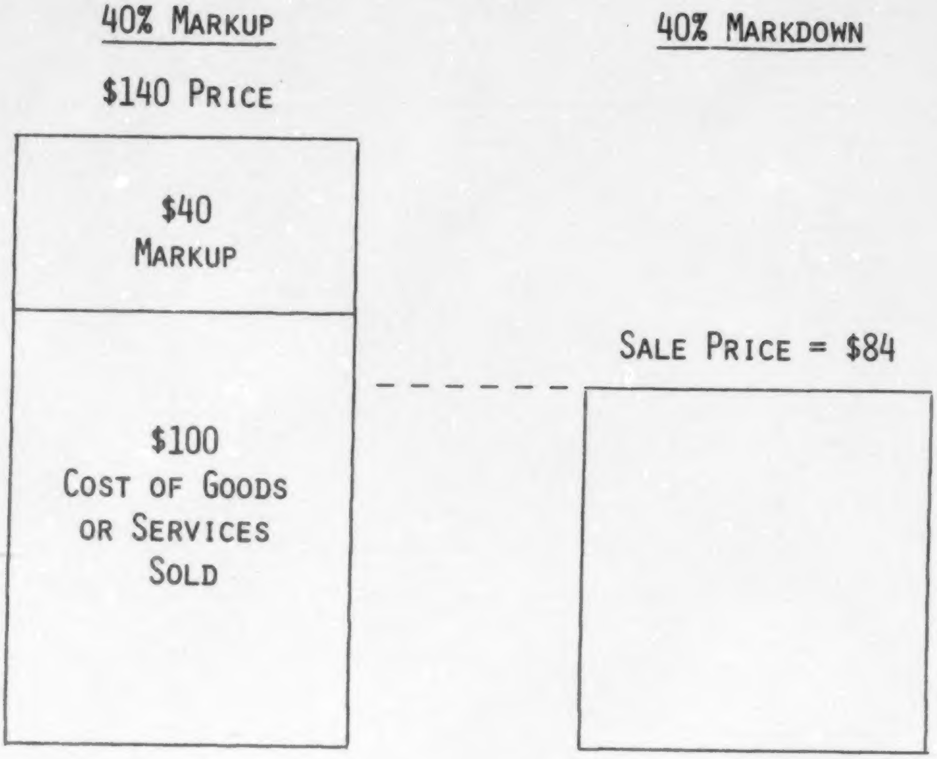
# APPENDIX C1

## WHAT MAKES UP SELLING PRICE?


MANUFACTURING INDUSTRY
$40
MARKUP
$25 TRANSPORTATION
$40 LABOR
COST OF GOODS SOLD
$35 MATERIALS
SELLING PRICE $140
RETAIL INDUSTRY
$40
MARKUP
$15 TRANSPORTATION
$85 MERCHANDISE
COST OF GOODS SOLD
SELLING PRICE $140
SERVICE INDUSTRY
$40
MARKUP
$80 LABOR
COST OF SERVICES SOLD
$20 MATERIALS
SELLING PRICE $140

# APPENDIX C2

## Markup vs Markdown

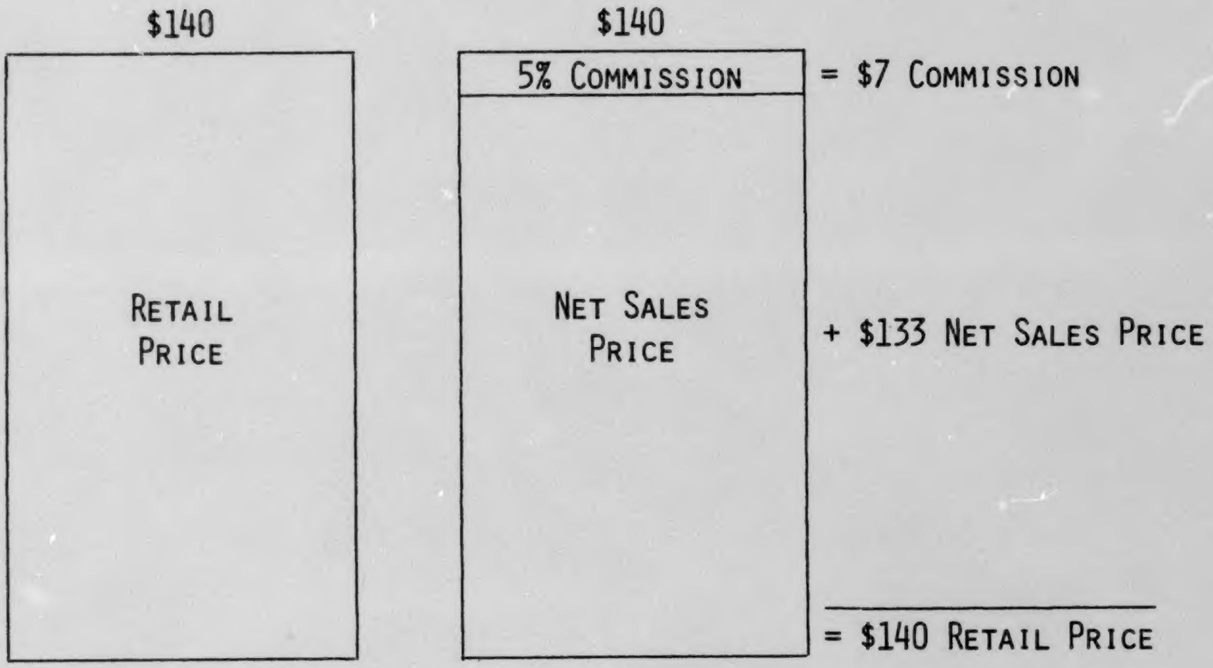

40% Markup
40% Markdown
$140 Price
$40 Markup
$100 Cost of Goods or Services Sold
Sale Price = $84

Original Price - (minus) Markdown = Sales Price
$140 x .40 = $56
$140 - $56 = $84

Original Selling Price is $140 for the Product Sold

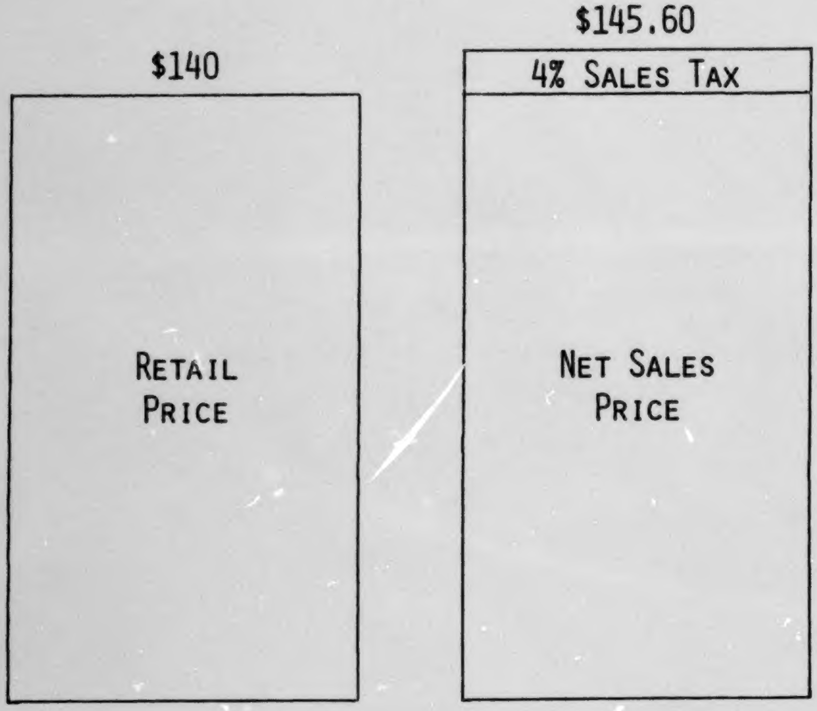
# APPENDIX C3

## CALCULATING COMMISSION SALES


$140
RETAIL PRICE
$140
5% COMMISSION
NET SALES PRICE
= $7 COMMISSION
+ $133 NET SALES PRICE
= $140 RETAIL PRICE

# APPENDIX C4

## CALCULATING SALES TAX


$140
RETAIL PRICE
$145.60
4% SALES TAX
NET SALES PRICE

= $5.60 SALES TAX

+ $140 RETAIL PRICE

= $145.60 RETAIL PRICE INCLUDING SALES TAX

# APPENDIX D

## EVALUATION INSTRUMENT

## SALES

Name Key

1. Circle the answers which are correct. In order to be successful at selling the small business owner and sales employees must have knowledge of:

[✓ Product for Sale]
Investment Credit
[✓ Customers]
Financial situation of the business
Business Assets
[✓ Competition]
[✓ The Market]
Insurance Liabilities

2. Answer the following questions by circling "T" for true or "F" for false.

a. Publicity is any event that has news value. [✓ T] F

b. Profit should not be a concern when determining a price reduction. T [✓ F]

c. A contest should be developed to get customers in for a one time basis. T [✓ F]

d. An open house is appropriate when opening a new store. [✓ T] F

e. Commissions are used to reduce selling price to customers. T [✓ F]

f. Sales tax is usually calculated as a percentage of the retail price. [✓ T] F

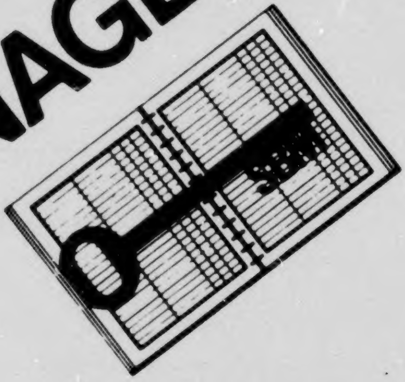
g. The percentage markup you use may be determined by a suggested retail price. [✓ T] F

h. An industry average shows what other like businesses are charging for a product or service. [✓ T] F

i. You could not use a business forecast to calculate a markup percentage. T [✓ F]

j. A 10% reduction off the retail price would not equal a 10% markup of cost. [✓ T] F

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 9

# Cash Flow

For Adult and/or Post Secondary Instruction

## Module #9

## CASH FLOW

### PART I. Introduction

Cash is the life blood of business. It is exchanged for the sale of goods and services, and is used to pay for all the costs involved in conducting the business. Successful operation of a business requires careful planning so that funds are always available in time to meet obligations, thus avoiding cash crises which might lead to liquidation or bankruptcy. This planning must be based on good records which allow the owner to make accurate forecasts and to avoid "surprise."

### PART II. Objectives (Behavioral)

A. Following a discussion of sources of funds the student will be able to identify at least five sources of funds involved in the cash flow of the business.

B. Following a discussion of the use of funds the student will be able to identify at least four uses of funds involved in the cash flow of the business.

C. Given a series of diagrams showing the flow of funds through a business the student will be able to accurately complete a basic illustration of how funds flow through the business.

D. Given a three month forecast of income and expenses and a beginning cash balance the student will be able to complete a cash flow forecast including the borrowing of short term funds.

E. Following a discussion of management controls which can be used to influence the flow of funds in a business the student will be able to list at least five control methods.

### PART III. Transition of Modules

Prior to working on this module the student should have an understanding of basic business recordkeeping systems, balance sheets and operating statements (profit & loss), finance, purchasing and sales. While this module presents a subject which is most troublesome to the new small business operator it must be preceeded by almost all other topics concerned with going into business. To gain maximum benefit from this module it is suggested that it be studied following the six major areas listed above (and perhaps repeated at the end of the fifteenth module).

## PART IV. The Lesson

### Attention Focuser

*The owner/operator of a small manufacturing business had $10,000 in cash to start the manufacturing process. The finished product will not be available for sale until the end of the eighth week. Buyers of the product will have 30 days in which to pay cash for their purchases. During the first 30 days of operation the owner/operator has the following bills to pay (in cash). Developmental costs of $2,000; raw materials of $4,000; operating costs of $2,000; for a total of $8,000. During the second month there will be $2,000 again in operating costs and an additional $1,000 in marketing costs. Does the owner/operator have a problem? How might the problem be solved?*

KEY QUESTION 1. What are the most important sources of cash in the creation and operation of a business?

1. Owner's Investment - Most businesses are started when the owner gathers enough money to pay for a building, equipment, inventory and enough surplus cash to pay bills until money is received from sales. Obviously, the more money the owner can invest and leave in the business during the first few months the better will be the chances for success. Some sources of cash might be:

   a. Personal savings
   b. Sale of stocks or bonds
   c. Inheritance or gifts
   d. Sale of real estate or personal property
   e. Relatives or friends

2. Borrowing from Financial Institutions - Banks, governmental agencies and other lenders will provide startup capital for a business. The loan must be repaid from income on a set schedule and the risk involved will determine the amount of interest which must then be included in the cost of doing business. In most cases the lender will require that the borrower pledge some personal or business assets as collateral. Even if the business does not succeed, the loan and interest must be repaid. Common sources of borrowing funds are:

   a. Commercial banks
   b. Insurance companies
   c. Small business investment companies
   d. Finance companies

3. Equity Financing - For long-term financial needs you may be required to sell part of the ownership in the business to partners or stockholders who wish to invest. In most cases the money does not have to be repaid but the profits of the venture would be distributed to all the owners according to the amount invested.

4. Cash Sales of Goods and Services - Once the business is in operation the cash will begin to flow in according to the goods or services sold. These receipts should be recorded and deposited each day so that it is available to pay bills. Obviously the best cash in-flow will be experienced by those who deal strictly in cash but depending on the type of business you may experience delays through billing or having to carry customers on open account. The business owner must be constantly alert for counterfeit money, bad checks and thefts which would affect cash in-flow. Many firms use discounts to encourage customers to pay cash or pay bills promptly.

5. Collection of Accounts Receivable - All cash received on account should be recorded daily and added to the bank deposit for that day. A credit system requires that the owner estimates the amounts to be received in 30, 60, or 90 days. When funds are not collected in 120 days or more the problem of collecting increases rapidly. While a credit program may be necessary in a business the owner must realize that the costs of billing, accounting, interest lost, collection fees and bad debts will increase the cost of doing business. Many credit card systems are available to business owners, which reduce collection risks and provide instant cash for a discount or fee of from 3 to 5 percent of credit sales.

6. Sale of Fixed Assets - In addition to being pledged as security for loans the assets of the business may be sold for cash or used as a trade-in toward the purchase of new equipment. Many finance companies will provide sale-and-lease-back arrangements for businesses that need operating cash rather than fixed investments.

### *Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Ask the students for their ideas on sources of cash. List their suggestions on the chalkboard in the form of the six major sources identified under the key question.*

*After the six sources have been identified discuss each source utilizing the transparency from Appendix A, or the narrative following each source.*

KEY QUESTION 2. What are the most common uses of cash in a small business?

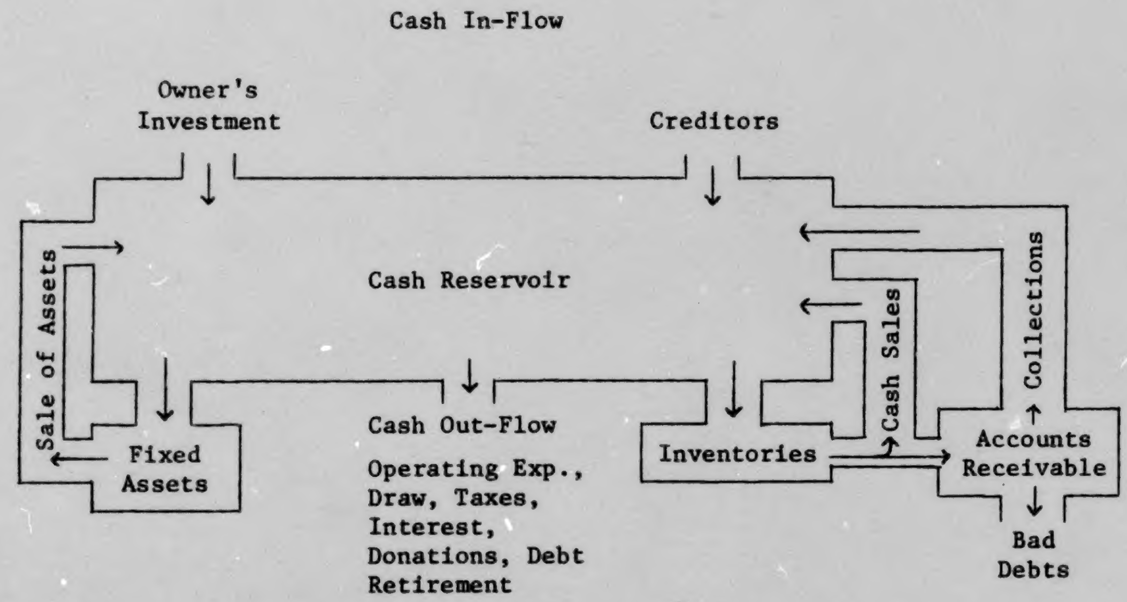
1. Purchase of Inventories - merchandise for resale or raw materials.
2. Purchase of Fixed Assets - land, equipment, buildings, vehicles, etc.
3. Operating Expenses - supplies, wages, utilities, services, etc.
4. Taxes and Licenses.
5. Owner's draw cr distribution of profits.

### *Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Solicit suggestions from the class and use Appendix B in transparency form to reinforce the above information.*

KEY QUESTION 3. How does cash flow through a business?

Cash Flow Diagram


Cash In-Flow
Owner's Investment
Creditors
Cash Reservoir
Sale of Assets
Fixed Assets
Cash Out-Flow
Operating Exp., Draw, Taxes, Interest, Donations, Debt Retirement
Inventories
Cash Sales
Collections
Accounts Receivable
Bad Debts

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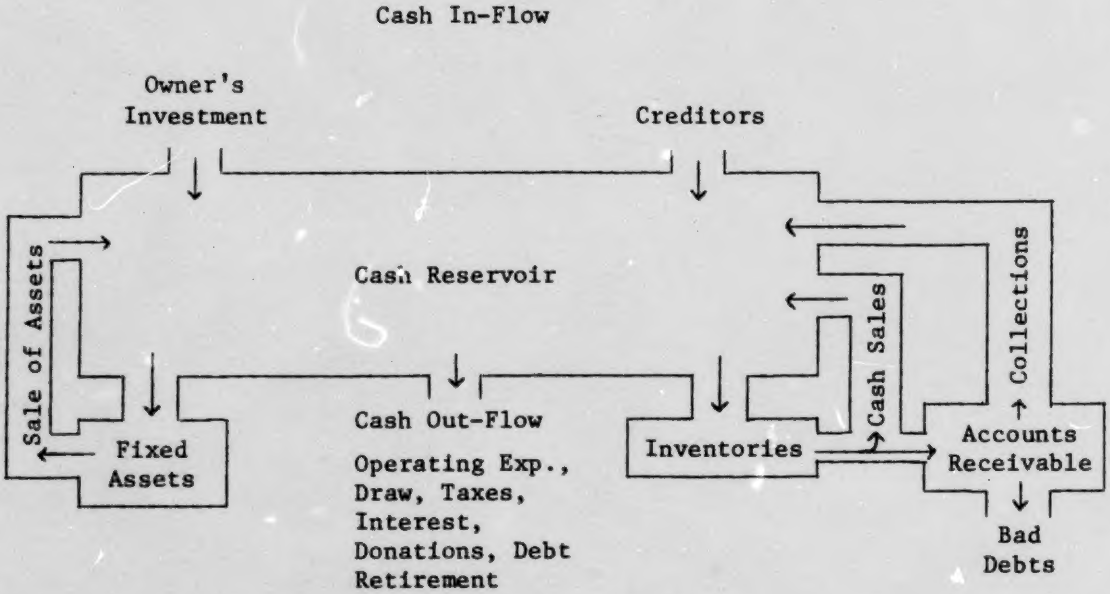

Cash In-Flow
Owner's Investment
Creditors
Sale of Assets
Cash Reservoir
Cash Sales
Collections
Fixed Assets
Cash Out-Flow
Operating Exp., Draw, Taxes, Interest, Donations, Debt Retirement
Inventories
Accounts Receivable
Bad Debts

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Utilizing Appendices C, C1 and C2, illustrate the progressive steps of the cash flow process.*

KEY QUESTION 4. How can forecasts of business activity be used to complete a cash budget?

Given the following estimates for a business, complete the quarterly cash budget worksheet.

| | January | February | March |
|---|---|---|---|
| Cash Sales | $ 7,500 | $13,000 | $15,000 |
| Received on Account | 1,200 | 600 | 1,500 |
| Merchandise Payments | 14,000 | 10,000 | 7,200 |
| Payroll | 1,200 | 1,200 | 1,800 |
| Drawing Account | 800 | 600 | 800 |
| Rent | -- | -- | 300 |
| Utilities | -- | -- | 420 |
| Insurance | 400 | -- | -- |
| Repairs & Maintenance | 400 | 500 | -- |
| Advertising | 540 | 300 | -- |
| Taxes | 850 | -- | -- |
| Estimated Cash Balance at Start of January | 5,000 | -- | -- |

The business owner can borrow up to $10,000 of short term (90 days or less) funds when needed at an interest rate of 10% payable monthly.

*Suggested Teaching Strategy*

*Utilizing Appendix D, have each student complete the Quarterly Cash Budget Worksheet. Assist the students by giving the following step-by-step directions.*

*Step 1. Calculate Total Cash Receipts and Total Cash Outflow (payments).*

*Step 2. Determine Estimated Excess Total Cash Receipts over Total Cash Outflow (subtraction process - bracket result if negative).*

*Step 3. Consider which month a cash loan must be made to operate the business ($5,000 is needed in January).*

*Step 4.* *Add the Borrowed money to the Beginning January Cash Balance and subtract the Estimated Cash Snortage for January to arrive at Estimated Cash Balance at End of Month. This figure becomes the Estimated Cash Balance at Start of February.*

*Step 5.* *Add February Cash Excess to the Estimated Cash Balance at Start of February and subtract interest ($500 ÷ 12) to arrive at February End of Month Cash Balance. This figure becomes the Estimated Cash Balance for the Start of March.*

*Step 6.* *By looking at the Cash Surplus and Beginning Cash Balance for March does it appear that the loan can be repaid at the end of March? If so, put in Loan Repayment.*

*Step 7.* *For the month of March add Cash Excess to Beginning Cash Balance and subtract Loan Repayment and Interest Payment. Ask students if the cash flow problem for the business has been solved.*

*Step 8.* *Discuss option of paying $1,000 on the loan at the end of February.*

KEY QUESTION 5. What controls can be used to manage the flow of funds in a business?

1. Reduce or increase an inventory to match sales requirements.
2. Negotiate with suppliers for an extension of payment dates (trade credit).
3. Shop for favorable interest rates and availability of loanable funds.
4. Control receivables to collect money as soon as possible thus lowering the chance of bad debts.
5. Analyze expenses to reduce cost and eliminate waste.
6. Raise prices to increase gross profits or lower them to increase volume.
7. Develop good purchasing practices to take advantage of special prices and discounts.

8. Take less cash out of the business.

9. Learn to use forecasts to develop useful cash budgets so that cash will be available to meet all future obligations.

*Suggested Teaching Strategy*

*Using the students completed Quarterly Cash Budget Worksheet from Key Question 4 and Appendix E, Key Question 5, in transparency form, discuss the affect of these controls on cash flow.*

## PART V. Summary

A. Cash inputs to a business come primarily through the owners investment, borrowing and from the cash sales of goods and services.

B. Cash flows out of a business primarily through the purchases of inventories, operating expenses, taxes and the owner's draw.

C. A cash flow diagram is an important aid in visualizing the flow of cash in and out of the cash reservoir.

D. The timing of cash out-flow to meet anticipated cash in-flow is one of several management controls that can be used in cash flow budgeting.

## PART VI. Unit Evaluation Instrument and/or Techniques

Students should be given a handout of the Glossary of Terms prior to the instruction of this module with instructions to study the terms listed. The instructor should refer to Part III, Transition of Modules to assure this module is taught at the appropriate time.

## EVALUATION INSTRUMENT

## CASH FLOW

Name ______________________________

1. Five sources of funds involved in the cash flow of the business are: (Circle five (5) of the items below)

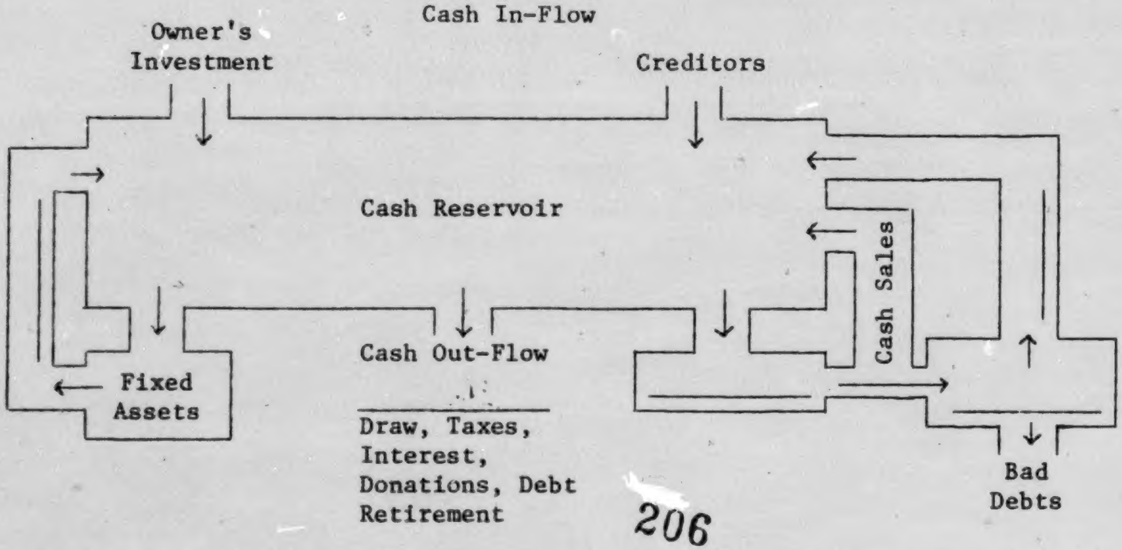
Small Business Investment Co.
Purchase of Fixed Assets
Merchandise Sold for Cash
Collection of Accounts Payable
Inheritance
Commercial Bank
Taxes
Personal Savings

2. Four uses of funds involved in the cash flow of the business are: (Circle four (4) of the items below)

Sale of Fixed Assets
Purchase of Inventories
Owners Draw
Taxes
Operating Expenses
Accounts Receivable

3. Complete the basic cash flow diagram below by filling in the blanks with the correct terms from the following list: Accounts Receivable; Accounts Payable; Wages; Inventories; Bank Loan; Sale of Fixed Assets; Cash Balance; Collections; Operating Expenses.

Cash Flow Diagram


Cash In-Flow
Owner's Investment
Creditors
Cash Reservoir
Cash Sales
Fixed Assets
Cash Out-Flow
Draw, Taxes, Interest, Donations, Debt Retirement
Bad Debts

4. Complete the following Quarterly Cash Budget. You need to determine when you should borrow $10,000 and when you will anticipate repaying the loan.

Quarterly Cash Budget

| | January | February | March |
|---|---|---|---|
| Estimated Cash Receipts | $ 3,000 | $13,000 | $25,000 |
| Estimated Cash Payments | 16,000 | 12,000 | 10,000 |
| Estimated Excess Cash Receipts Over Cash Payments | ______ | ______ | ______ |
| Estimated Cash Balance at Start Of Month | 3,500 | ______ | ______ |
| Borrowing Needed | ______ | ______ | ______ |
| Loan Repayment | ______ | ______ | ______ |
| Estimated Cash Balance at End of Month | ______ | ______ | ______ |

5. Five management controls which can be used to improve the cash flow in a business are: (Circle five (5) of the items below)

Price Increases

Reduce Owner's Draw

Prepare a Cash Budget

Maintain Large Inventory

Extend Payment Dates

Pay High Interest Rates

Keep Accounts Current

Increase Expenses

## PART VII. Transparency Masters & Other Teaching Support Material

Glossary of Terms
Appendix A - Key Question 1
Appendix B - Key Question 2
Appendix C - Stage 1 - Cash Flow
Appendix C1 - Stage 2 - Cash Flow
Appendix C2 - Stage 3 - Cash Flow
Appendix D - Quarterly Cash Budget Worksheet
Appendix D1 - Quarterly Cash Budget Worksheet Key
Appendix E - Key Question 5
Appendix F - Evaluation Instrument Key

## GLOSSARY OF TERMS

Accounts Payable - The amount owed by a business to the supplier for merchandise or services purchased on short term credit.

Accounts Receivable - The amount owed to a business for merchandise or services sold on short term credit.

Balance Sheet - An itemized statement listing the total assets and the total liabilities of a business to show its net worth at a given time.

Budget or Forecast - An itemized listing of anticipated income and expenses for a period of time like a month or year, and often based on prior actual records.

Cash - Paper money, coin or check.

Cash Balance - The difference between cash in-flow and cash out-flow at any given time.

Collateral - Personal property which a borrower pledges as security for a loan.

Current Assets - Cash, accounts receivable and other assets which may be easily converted to cash.

Drawing - Cash or goods taken out of a business by the owner at regular intervals; represents a portion of anticipated business profits.

Fixed Assets - Also called Capital Assets; refers to assets like furniture and fixtures, land, buildings, vehicles, machinery, etc. which cannot be easily converted to cash.

Operating Statement - Also called a profit & loss statement, refers to the itemized listing of income and expenses to arrive at a profit (or loss) for a given period of time.

Trade Credit - Extended payment dates often used by manufacturers or wholesalers as a sales incentive.

# APPENDIX A

## KEY QUESTION 1. WHAT ARE THE MOST IMPORTANT SOURCES OF CASH IN THE CREATION AND OPERATION OF A BUSINESS?

1. OWNER'S INVESTMENT
    - A. PERSONAL SAVINGS
    - B. SALE OF STOCKS AND BONDS
    - C. INHERITANCE OR GIFTS
    - D. SALE OF REAL ESTATE OR PERSONAL PROPERTY

2. BORROWING FROM FINANCIAL INSTITUTIONS
    - A. COMMERCIAL BANKS
    - B. INSURANCE COMPANIES
    - C. SMALL BUSINESS INVESTMENT COMPANIES
    - D. FINANCE COMPANIES

3. EQUITY FINANCING

4. CASH SALE OF GOODS AND SERVICES

5. COLLECTION OF ACCOUNTS RECEIVABLE

6. SALE OF FIXED ASSETS

# APPENDIX B

## KEY QUESTION 2. WHAT ARE THE MOST COMMON USES OF CASH IN A SMALL BUSINESS?

1. PURCHASE OF INVENTORIES
    - A. MERCHANDISE FOR RESALE
    - B. RAW MATERIALS

2. PURCHASE OF FIXED ASSETS
    - A. LAND
    - B. EQUIPMENT
    - C. BUILDINGS
    - D. VEHICLES
    - E. OTHER

3. OPERATING EXPENSES
    - A. SUPPLIES
    - B. WAGES
    - C. UTILITIES
    - D. SERVICES
    - E. OTHER

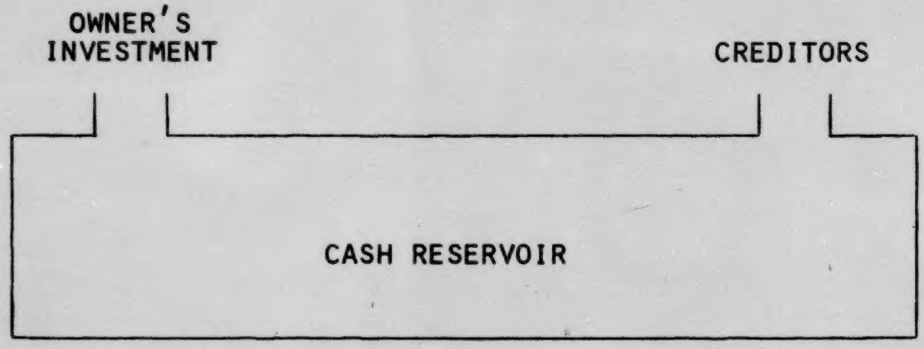
4. TAXES AND LICENSES

5. OWNER'S DRAW

# APPENDIX C

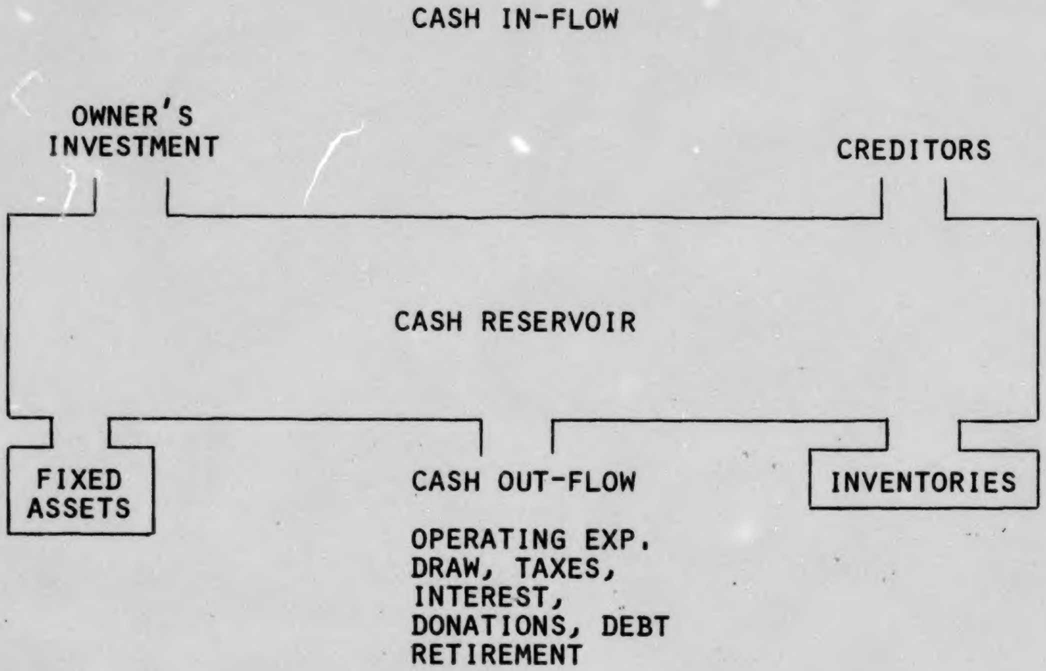
## FLOW OF FUNDS THROUGH A BUSINESS

CASH IN-FLOW


OWNER'S INVESTMENT
CREDITORS
CASH RESERVOIR

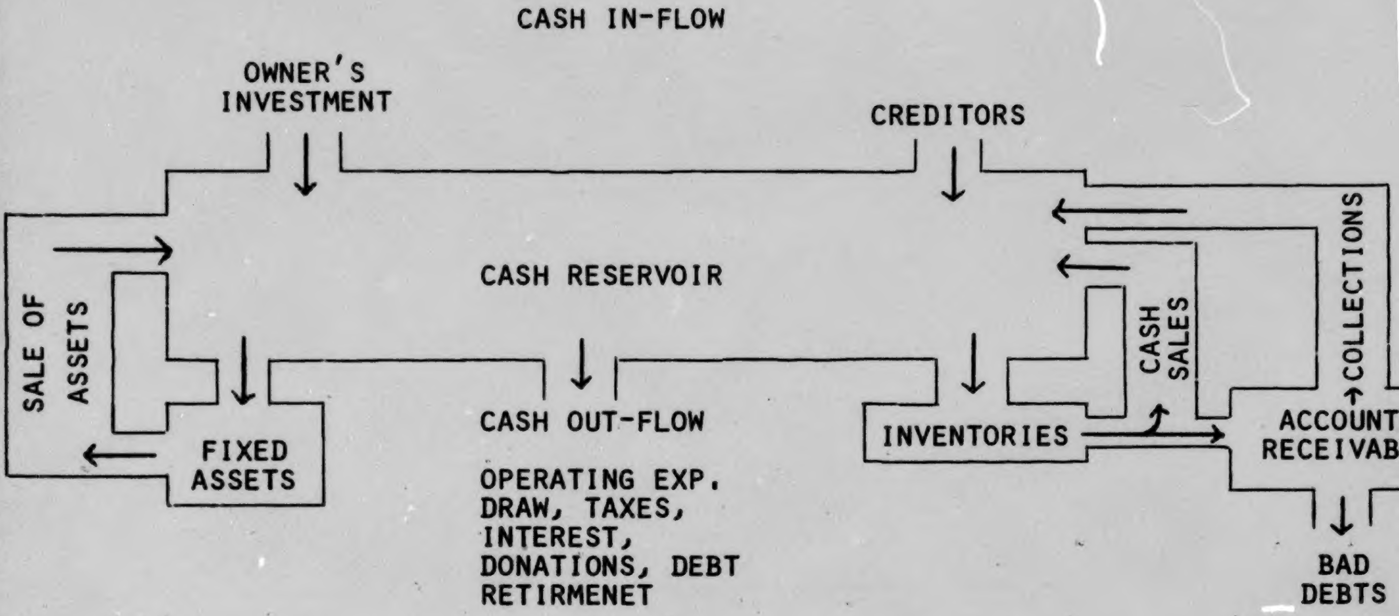
# APPENDIX C1

## FLOW OF FUNDS THROUGH A BUSINESS


CASH IN-FLOW
OWNER'S INVESTMENT
CREDITORS
CASH RESERVOIR
FIXED ASSETS
CASH OUT-FLOW
INVENTORIES
OPERATING EXP.
DRAW, TAXES,
INTEREST,
DONATIONS, DEBT
RETIREMENT

# APPENDIX C2

## FLOW OF FUNDS THROUGH A BUSINESS


CASH IN-FLOW
OWNER'S INVESTMENT
CREDITORS
CASH RESERVOIR
SALE OF ASSETS
FIXED ASSETS
CASH OUT-FLOW
OPERATING EXP. DRAW, TAXES, INTEREST, DONATIONS, DEBT RETIRMENET
INVENTORIES
CASH SALES
COLLECTIONS
ACCOUNT
RECEIVAB
BAD DEBTS

# APPENDIX D

## QUARTERLY CASH BUDGET WORKSHEET

Name ____________________

| | January | February | March |
|---|---|---|---|
| **Estimated Receipts** | | | |
| Cash Sales | $ 7,500 | $13,000 | $15,000 |
| Received on Account | 1,200 | 600 | 1,500 |
| Total Cash Receipts | | | |
| **Estimated Cash Payments** | | | |
| Merchandise Payments | $14,000 | $10,000 | $ 7,200 |
| Payroll | 1,200 | 1,200 | 1,800 |
| Drawing Account | 800 | 600 | 800 |
| Rent | -- | -- | 300 |
| Utilities | -- | -- | 420 |
| Insurance | 400 | -- | -- |
| Repairs & Maintenance | 400 | 500 | -- |
| Advertising | 540 | 300 | -- |
| Taxes | 850 | -- | -- |
| Total Cash Payments | | | |
| **Estimated Excess Cash Receipts over Cash Payments** | | | |
| **Estimated Cash Balance at Start of Month** | | | |
| **Borrowing Needed** | | | |
| **Loan Repayment** | | | |
| **Interest Expense** | | | |
| **Estimated Cash Balance at End of Month** | | | |

## OPTIONAL SOLUTION

| | | | |
|---|---|---|---|
| **Estimated Excess Cash Receipts over Cash Payments** | | | |
| **Estimated Cash Balance at Start of Month** | | | |
| **Borrowing Needed** | | | |
| **Loan Repayment** | | | |
| **Interest Expense** | | | |
| **Estimated Cash Balance at End of Month** | | | |

# APPENDIX D1

## QUARTERLY CASH BUDGET WORKSHEET

Name Key

| | January | February | March |
|---|---|---|---|
| Estimated Receipts | | | |
| Cash Sales | $ 7,500 | $13,000 | $15,000 |
| Received on Account | 1,200 | 600 | 1,500 |
| Total Cash Receipts | 8,700 | 13,600 | 16,500 |
| Estimated Cash Payments | | | |
| Merchandise Payments | $14,000 | $10,000 | $ 7,200 |
| Payroll | 1,200 | 1,200 | 1,800 |
| Drawing Account | 800 | 600 | 800 |
| Rent | -- | -- | 300 |
| Utilities | -- | -- | 420 |
| Insurance | 400 | -- | -- |
| Repairs & Maintenance | 400 | 500 | -- |
| Advertising | 540 | 300 | -- |
| Taxes | 850 | -- | -- |
| Total Cash Payments | 18,190 | 12,600 | 10,520 |
| Estimated Excess Cash Receipts over Cash Payments | (9,490) | 1,000 | 5,980 |
| Estimated Cash Balance at Start of Month | 5,000 | 510 | 1,468 |
| Borrowing Needed | 5,000 | - | - |
| Loan Repayment | - | - | 5,000 |
| Interest Expense | - | 42 | 42 |
| Estimated Cash Balance at End of Month | 510 | 1,468 | 2,406 |

## OPTIONAL SOLUTION

| | | | |
|---|---|---|---|
| Estimated Excess Cash Receipts over Cash Payments | (9,490) | 1,000 | 5,980 |
| Estimated Cash Balance at Start of Month | 5,000 | 510 | 468 |
| Borrowing Needed | 5,000 | - | - |
| Loan Repayment | - | 1,000 | 4,000 |
| Interest Expense | - | 42 | 33 |
| Estimated Cash Balance at End of Month | 510 | 468 | 2,415 |

# APPENDIX E

KEY QUESTION 5. WHAT CONTROLS CAN BE USED TO MANAGE THE FLOW OF FUNDS IN A BUSINESS?

1. REDUCE OR INCREASE INVENTORY.
2. EXTENSION OF PAYMENT DATES (TRADE CREDIT).
3. SHOP FOR FAVORABLE INTEREST RATES AND AVAILABILITY OF LOANABLE FUNDS.
4. CONTROL RECEIVABLES TO COLLECT MONEY AS SOON AS POSSIBLE.
5. ANALYZE EXPENSES.
6. RAISE PRICES.
7. DEVELOP GOOD PURCHASING PRACTICES.
8. TAKE LESS CASH OUT OF THE BUSINESS.
9. USE FORECASTS TO DEVELOP CASH BUDGETS.

# APPENDIX F

## EVALUATION INSTRUMENT

## CASH FLOW

Name Key

1. Five sources of funds involved in the cash flow of the business are: (Circle five (5) of the items below)

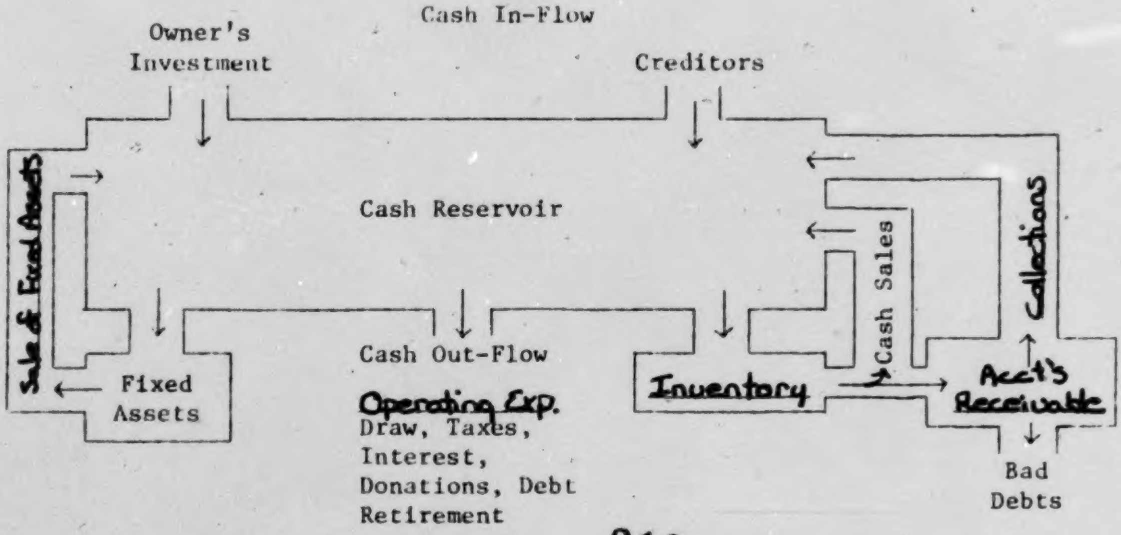
[✓ Small Business Investment Co.]
[✓ Inheritance]
Purchase of Fixed Assets
[✓ Commercial Bank]
[✓ Merchandise Sold for Cash]
Taxes
Collection of Accounts Payable
[✓ Personal Savings]

2. Four uses of funds involved in the cash flow of the business are: (Circle four (4) of the items below)

Sale of Fixed Assets
[✓ Taxes]
[✓ Purchase of Inventories]
[✓ Operating Expenses]
[✓ Owner's Draw]
Accounts Receivable

3. Complete the basic cash flow diagram below by filling in the blanks with the correct terms from the following list: Accounts Receivable; Accounts Payable; Wages; Inventories; Bank Loan; Sale of Fixed Assets; Cash Balance; Collections; Operating Expenses.

Cash Flow Diagram


Cash In-Flow
Owner's Investment
Creditors
Sale of Fixed Assets
Cash Reservoir
Collections
Cash Sales
Cash Out-Flow
Fixed Assets
Operating Exp.
Draw, Taxes, Interest, Donations, Debt Retirement
Inventory
Acct's Receivable
Bad Debts

4. Complete the following Quarterly Cash Budget. You need to determine when you should borrow $10,000 and when you will anticipate repaying the loan.

Quarterly Cash Budget

| | January | February | March |
|---|---|---|---|
| Estimated Cash Receipts | $ 3,000 | $13,000 | $25,000 |
| Estimated Cash Payments | 16,000 | 12,000 | 10,000 |
| Estimated Excess Cash Receipts Over Cash Payments | (13,000) | 1,000 | 15,000 |
| Estimated Cash Balance at Start Of Month | 3,500 | 500 | 1,500 |
| Borrowing Needed | 10,000 | - | - |
| Loan Repayment | - | - | 10,000 |
| Estimated Cash Balance at End of Month | 500 | 1,500 | 6,500 |

5. Five management controls which can be used to improve the cash flow in a business are: (Circle five (5) of the items below)

[✓ Price Increases]

[✓ Reduce Owner's Draw]

[✓ Prepare a Cash Budget]

Maintain Large Inventory

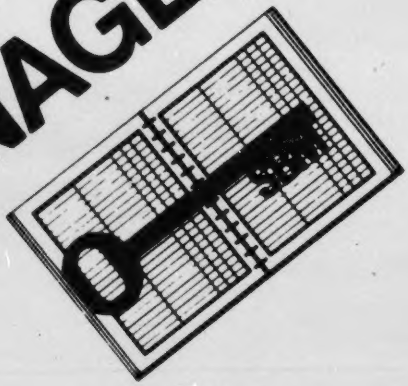
[✓ Extend Payment Dates]

Pay High Interest Rates

[✓ Keep Accounts Current]

Increase Expenses

# SMALL BUSINESS MANAGEMENT



## Going-Into-Business

## Module 10

# Taxes and Depreciation

For Adult and/or Post Secondary Instruction

## Module #10

## TAXES AND DEPRECIATION

### PART I. Introduction

It is possible to determine your correct tax liability? You may be able to complete the mechanics of computing taxes due and of filing tax returns, but do you really understand the process. Since taxes can be a large expenditure for some businesses, the knowledge of how they are computed will be an aid to good tax management practices and serve as an additional incentive for improving the accounting system.

### PART II. Objectives (Behavioral)

A. Given sample business data and an IRS Form Schedule C the student will be able to calculate the business profit (or loss).

B. Given business profit (or loss) and an IRS Form 1040, Schedule SE, the student will be able to calculate the owners self-employment tax due.

C. Given sample business data on the purchase of capital assets and an IRS Form 3468, the student will be able to calculate investment credit.

D. Given sample business and individual data and an IRS Form 1040, the student will be able to calculate the total tax due.

E. Given sample estimated income tax data and an IRS Form 1040 ES, the student will be able to complete a quarterly estimated income tax form.

F. Given a sample payroll summary and an IRS Form 941, the student will be able to complete the Employer's Quarterly Federal Tax Return.

### PART III. Transition of Modules

Module #9 showed how cash flows through a business and described methods of controlling the supply of cash needed to operate a business. This module deals with the computation of Federal Income and Social Security Taxes. The following module will cover the purpose of business insurance and types of coverages that a business owner should purchase.

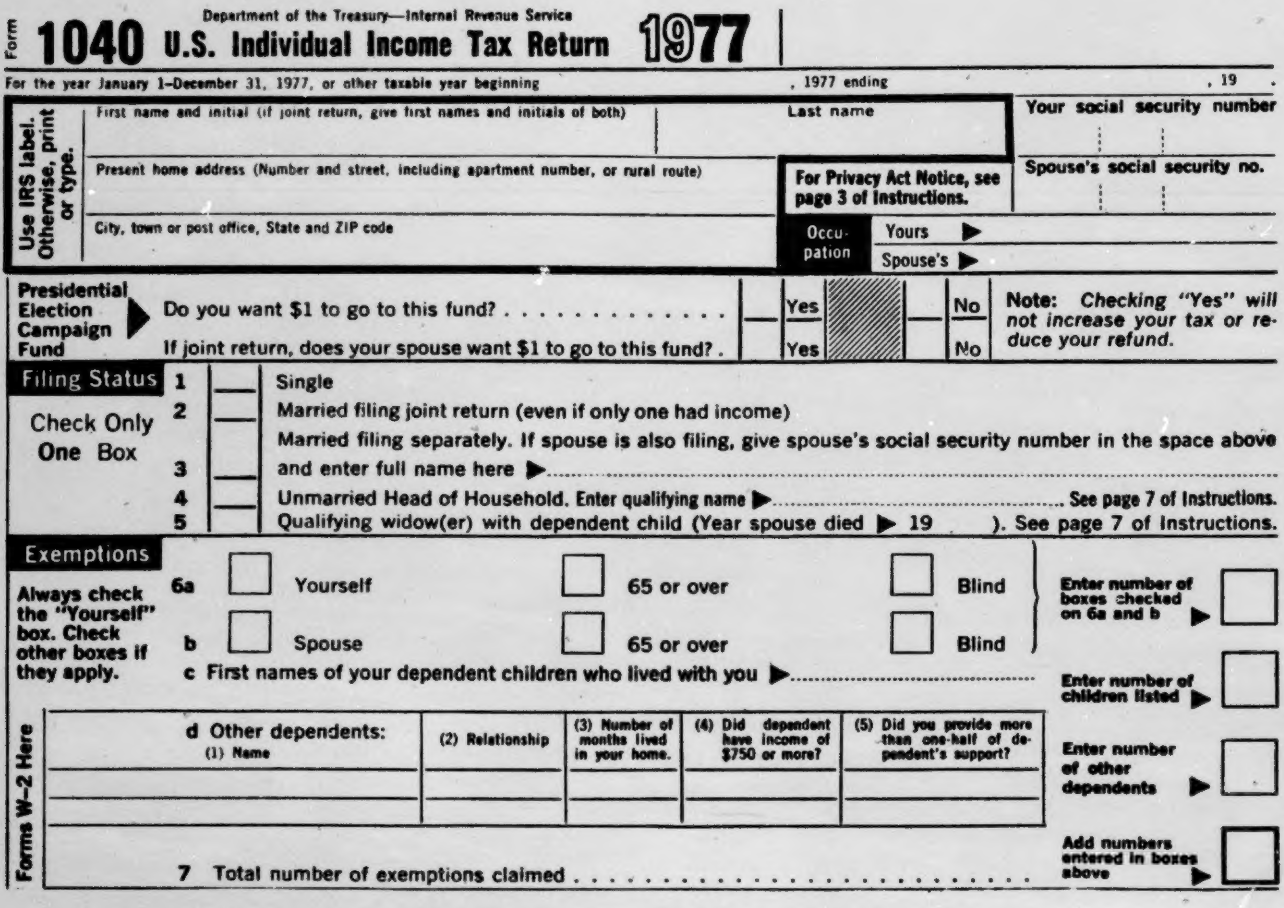
### PART IV. The Lesson

*Attention Focuser*

*Have each student silently recall the amount of taxes they paid in the previous calendar year. Ask for a show of hands from those who think* they should have paid more. Then ask how many think they should have paid less. This helps frame the issue for discussion, "What are the critical issues involved in filling out federal return forms for a small business."

KEY QUESTION 1. How do you complete the general information section of the U.S. Income Tax forms?

The information requested here is biographical information to identify the person or persons returning the income tax form. Information requested here goes through item 7.



Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return 1977**

For the year January 1–December 31, 1977, or other taxable year beginning , 1977 ending , 19 .

Use IRS label. Otherwise, print or type.

First name and initial (if joint return, give first names and initials of both)

Last name

Your social security number

Present home address (Number and street, including apartment number, or rural route)

For Privacy Act Notice, see page 3 of Instructions.

Spouse's social security no.

City, town or post office, State and ZIP code

Occupation Yours ▶

Spouse's ▶

**Presidential Election Campaign Fund** ▶ Do you want $1 to go to this fund? . . . . . . . . . . . . . ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? . ☐ Yes ☐ No

**Note:** *Checking "Yes" will not increase your tax or reduce your refund.*

**Filing Status**

Check Only One Box

1 ☐ Single

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separately. If spouse is also filing, give spouse's social security number in the space above and enter full name here ▶

4 ☐ Unmarried Head of Household. Enter qualifying name ▶ See page 7 of Instructions.

5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19 ). See page 7 of Instructions.

**Exemptions**

Always check the "Yourself" box. Check other boxes if they apply.

6a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Enter number of boxes checked on 6a and b ▶ ☐

c First names of your dependent children who lived with you ▶

Enter number of children listed ▶ ☐

| d Other dependents: (1) Name | (2) Relationship | (3) Number of months lived in your home. | (4) Did dependent have income of $750 or more? | (5) Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Enter number of other dependents ▶ ☐

7 Total number of exemptions claimed . . . . . . . . . . . . . . . . . . . . . . . . . . Add numbers entered in boxes above ▶ ☐

Forms W–2 Here

## Suggested Teaching Strategy

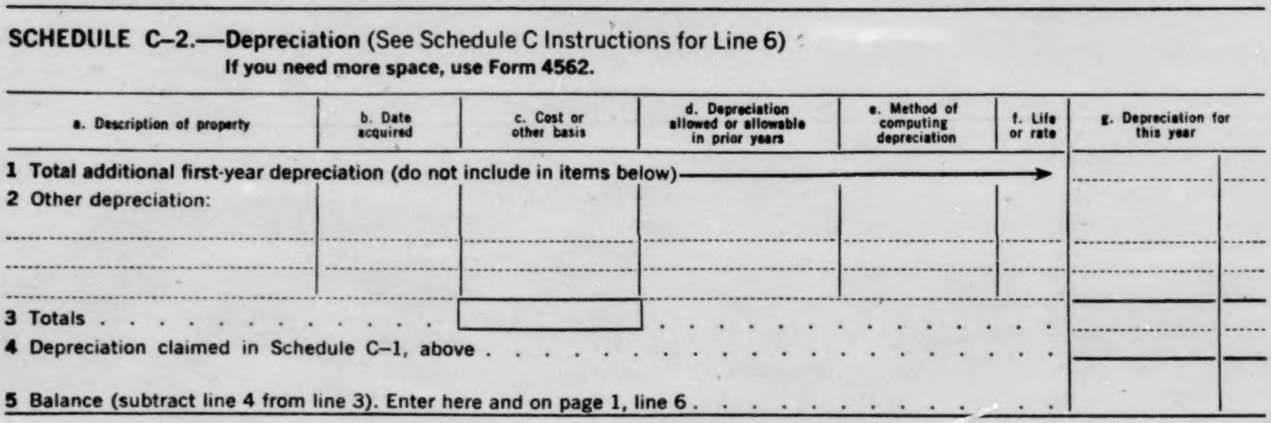
Give each student a blank copy of Form 1040, or utilize a transparency of the completed Form 1040, Appendix B, to illustrate to students how to enter information from Section 1 of Appendix A to the Form 1040.

KEY QUESTION 2. How is the Depreciation Schedule C-2 calculated?

The kind of property on which you ordinarily may claim the depreciation deduction is property with a useful life of more than one year. Examples are buildings, machinery, equipment and trucks.

The depreciation deduction is allowed only for property you use in a trade or business or hold for the production of income. You may not deduct depreciation on property that you and your family use as your personal residence, on your automobile used soley for pleasure or for commuting or other items used in a similar manner.

If property is used for both business and personal purposes, depreciation is deductible only to the extent that the property is used in your business.



**SCHEDULE C-2.—Depreciation** (See Schedule C Instructions for Line 6)
**If you need more space, use Form 4562.**

| a. Description of property | b. Date acquired | c. Cost or other basis | d. Depreciation allowed or allowable in prior years | e. Method of computing depreciation | f. Life or rate | g. Depreciation for this year | |
|---|---|---|---|---|---|---|---|
| 1 Total additional first-year depreciation (do not include in items below) → | | | | | | | |
| 2 Other depreciation: | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 3 Totals . . . . . . . . . . . . . | | | | | | | |
| 4 Depreciation claimed in Schedule C-1, above . . . . . | | | | | | | |
| 5 Balance (subtract line 4 from line 3). Enter here and on page 1, line 6 . . . . . | | | | | | | |

Methods of Computing Depreciation

Any reasonable method that is consistently applied may be used in computing depreciation. The three methods most generally used are:

1. Straight-line
2. Declining-balance
3. Sum of the years-digits

Why Depreciation?

The definition of depreciation suggests that some items purchased for business purposes are not used up in the year purchased, but wear out over a longer period of life. Thus, while the cost of these items is a business expense, it must be spread over the years for which the item is used. The three methods of computing depreciation mentioned above each have special features relative to tax management. The rules and features of depreciation should be learned well as they greatly affect the profitability of your business.

Example: Assume you purchased a new machine in January of this year for $2,000 and its estimated life is 10 years. Under the straight-line method of computing depreciation, the rate is 10%. It may be depreciated under the declining-balance method at a rate twice the straight-line rate of 20%. Your depreciation allowance on this machine for this year is $400, which is 20% of $2,000. Your depreciation allowance the following year is $320, or 20% of $1,600 ($2,000 minus $400).

Sum of the Years-Digits Method. Under this method, as a general rule, you apply a different fraction each year to the cost of other basis of each single asset account reduced by estimated salvage value. The denominator (lower number) of the fraction, which remains constant, is the total of the digits representing the years of estimated useful life of the property. For example, if the estimated useful life is 5 years, the denominator is 15, that is the sum of 1 + 2 + 3 + 4 + 5. To save time in arriving at the denominator, especially when an asset has a long life, square the life of the asset, add the life and divide by 2. Thus, the asset with a 5 year life has a denominator 5 x 5 + 5 ÷ 2 = 15.

The numerator (upper number) of the fraction changes each year to represent the years of useful life remaining at the beginning of the year for which the computation is made. For the first year of a 5-year estimated useful life, the numerator would be 5, for the second year 4, etc. Thus, for property with an estimated useful life of 5 years, the fraction to be applied to the cost or other basis, minus salvage value, to compute depreciation for the first year is 5/15. The fractions for the 2nd, 3rd, 4th years are 4/15, 3/15, 2/15 and 1/15, respectively.

## Additional First Year Depreciation

You may elect to deduct 20% of the cost of qualifying property (subject to a dollar limitation discussed later) as additional first year depreciation in addition to your regular depreciation. You do not use salvage value in computing this deduction.

When allowable you may take this deduction only in the first tax year for which a depreciation deduction is allowable on the property. This is the year in which the property is acquired.

Example: You use the calendar year. On July 1, you bought a used pile-driver for $14,500. It had an estimated useful life of 10 years and a salvage value of $500 (over and above the 10% of basis that may be disregarded). Your depreciation deduction is computed as follows:

Separate Return:

| | |
|---|---|
| Additional first-year depreciation: 20% of $10,000 ($14,500 limited to $10,000) | $2,000 |
| Regular depreciation: 10% of $12,000 ($14,500 less the $2,000 and less $500 salvage) x ½ year | 600 |
| Total depreciation for the year | $2,600 |

Joint Return:

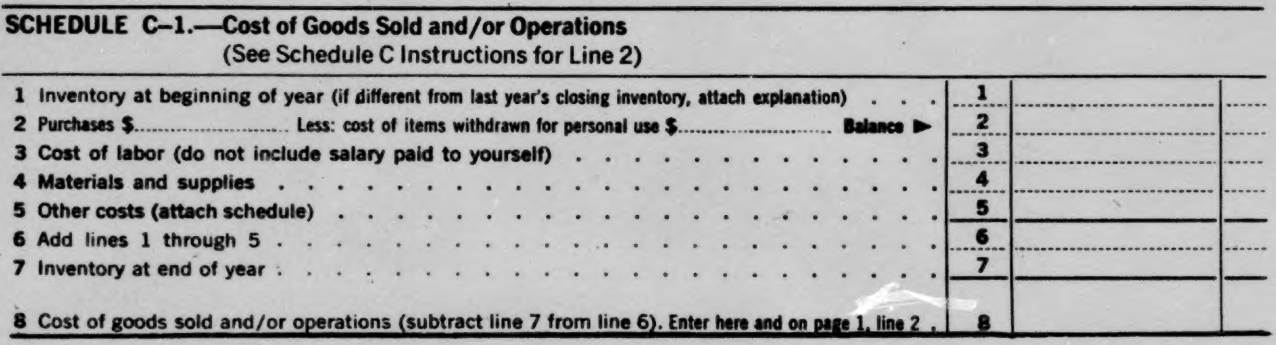
| | |
|---|---|
| Additional first-year depreciation: 20% of $14,500 (limitation is $20,000) | $2,900 |
| Regular depreciation: 10% of $11,100 ($14,500 less the $2,900 and less $500 salvage) x ½ year | 555 |
| Total depreciation for the year | $3,455 |

*Suggested Teaching Strategy*

*Following a discussion of Schedule C-2 Depreciation, use the information from Section 2 of Appendix A and have each student complete the depreciation schedule C-2, or to observe the completed C-2 in Appendix C.*

KEY QUESTION 3. How is profit or loss from a business or profession calculated?

Complete Schedule C-1, Cost of Goods Sold and/or Operations.



**SCHEDULE C–1.—Cost of Goods Sold and/or Operations**
(See Schedule C Instructions for Line 2)

| | | | |
|---|---|---|---|
| 1 Inventory at beginning of year (if different from last year's closing inventory, attach explanation) | 1 | | |
| 2 Purchases $.......... Less: cost of items withdrawn for personal use $.......... Balance ▶ | 2 | | |
| 3 Cost of labor (do not include salary paid to yourself) | 3 | | |
| 4 Materials and supplies | 4 | | |
| 5 Other costs (attach schedule) | 5 | | |
| 6 Add lines 1 through 5 | 6 | | |
| 7 Inventory at end of year | 7 | | |
| 8 Cost of goods sold and/or operations (subtract line 7 from line 6). Enter here and on page 1, line 2 | 8 | | |

Complete the following Schedule C, Profit or (Loss) From Business or Profession.

**SCHEDULE C**
**(Form 1040)**
Department of the Treasury
Internal Revenue Service

# Profit or (Loss) From Business or Profession

**(Sole Proprietorship)**
**Partnerships, Joint Ventures, etc., Must File Form 1065.**
▶ Attach to Form 1040. ▶ See Instructions for Schedule C (Form 1040).

**1977**

Name of proprietor
Social security number

**C**

A Principal business activity (see Schedule C Instructions) ▶ ; product ▶
B Business name ▶
C Employer identification number ▶
D Business address (number and street) ▶
City, State and ZIP code ▶
E Indicate method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other ▶

| | Yes | No |
|---|---|---|
| F Was an Employer's Quarterly Federal Tax Return, Form 941, filed for this business for any quarter in 1977? | | |
| G Did you own the business at the end of 1977? | | |
| H How many months in 1977 did you own this business? ▶ | ▨ | ▨ |
| I Check valuation method(s) used for total closing inventory: ☐ cost, ☐ lower of cost or market, ☐ other (if "other," attach explanation). | ▨ | ▨ |
| Was there any substantial change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation. | | |

| | | | | |
|---|---|---|---|---|
| Income | 1 Gross receipts or sales $ Less: returns and allowances $ Balance ▶ | 1 | | |
| | 2 Less: Cost of goods sold and/or operations (Schedule C–1, line 8) | 2 | | |
| | 3 Gross profit | 3 | | |
| | 4 Other income (attach schedule) | 4 | | |
| | 5 **Total income** (add lines 3 and 4) | 5 | | |
| Deductions | 6 Depreciation (explain in Schedule C–2) | 6 | | |
| | 7 Taxes on business and business property | 7 | | |
| | 8 Rent on business property | 8 | | |
| | 9 Repairs | 9 | | |
| | 10 Salaries and wages not included on line 3, Schedule C–1 (exclude any paid to yourself) | 10 | | |
| | 11 Insurance | 11 | | |
| | 12 Legal and professional fees | 12 | | |
| | 13 Commissions | 13 | | |
| | 14 Amortization (attach statement) | 14 | | |
| | 15 a Pension and profit-sharing plans (see Schedule C Instructions) | 15a | | |
| | b Employee benefit programs (see Schedule C Instructions) | b | | |
| | 16 Interest on business indebtedness | 16 | | |
| | 17 Bad debts arising from sales or services | 17 | | |
| | 18 Depletion | 18 | | |
| | 19 Other business expenses (specify): | ▨ | ▨ | ▨ |
| | a | | | |
| | b | | | |
| | c | | | |
| | d | | | |
| | e | | | |
| | f | | | |
| | g | | | |
| | h | | | |
| | i | | | |
| | j | | | |
| | k | | | |
| | l | | | |
| | m | | | |
| | n | | | |
| | o | | | |
| | p Total other business expenses (add lines 19a through 19o) | 19p | | |
| | 20 Total deductions (add lines 6 through 19p) | 20 | | |
| | 21 Net profit or (loss) (subtract line 20 from line 5). Enter here and on Form 1040, line 13. ALSO enter on Schedule SE, line 5a ▶ | 21 | | |

**Did you claim a deduction for expenses of an office in your home?** ☐ Yes ☐ No

*Suggested Teaching Strategy*

*Provide each student with a blank copy of Schedule C, or utilize the completed Schedule C, Appendix C. Use the information on Sections 1 and 3 of Appendix A to fill out Schedule C, or to follow the completed schedule. Utilize the previous information about Schedule C-2, Depreciation to complete the depreciation portion of Schedule C, or to observe the completed form.*

KEY QUESTION 4. How do you calculate Social Security Self-Employment Tax?

Schedule SE provides the Social Security Administration with information on self-employment income necessary for figuring benefits under the Social Security program. You have to pay Social Security self-employment tax regardless of age and even though you are receiving Social Security benefits.

To assure proper credit to your account, please enter your name and Social Security number on Schedule SE exactly as they are shown on your Social Security Card.

*Suggested Teaching Strategy*

*Provide each student with a blank copy of Schedule SE (Form 1040), or the completed form, Appendix C. Use the data in Section 4 of Appendix A to fill out Schedule SE (Form 1040).*

KEY QUESTION 5. How do you calculate and submit payments of your estimated income tax liability?

Generally a sole proprietor must file the declaration of estimated income tax on Form 1040-ES if the total estimated Federal income and self-employment taxes for the tax year exceeds, by $100 or more, the combined withholding from the individual's wages and the wages of that person's spouse.

Form 1040-ES consists of instructions, an estimated tax worksheet, and four declaration vouchers. Detach and mail a declaration voucher with each of your payments of estimated tax (see When to File and Pay). Use the worksheet to compute your estimated tax and retain it for your records.

In completing the worksheet, you must make an estimate of your income, deductions, credits, and self-employment income to arrive at your estimated tax for 1978. You should consider all available facts that will affect these items during the year. It may be helpful to use last year's income and deductions as a starting point, making suitable adjustments for 1978. It is recognized that your estimates are unlikely to be the same as your actual income and deductions determined at the close of your tax year.

You must file your declaration of estimated tax for 1978 on or before April 17, 1978, the same day your 1977 income tax return is due. Use Form 1040-ES. You may pay your estimated tax in full with your declaration or in four equal installments on or before April 17, June 15, Sept. 15, and January 15. *

### *Suggested Teaching Strategy*

*Provide each student with a blank Form 1040-ES, or the completed form, Appendix E. Use the estimated tax worksheet and Section 5 of Appendix A to compute the estimated quarterly tax or to follow the computations on the completed form. After completing the worksheet fill out the four quarterly estimated tax declaration vouchers for paying estimated income tax.*

## KEY QUESTION 6. How do you complete the form for investment credit and capital gains?

If you acquired new or used depreciable property for use in your business and placed the property in-service during the tax year or made qualified progress expenditures, you may qualify for the investment credit. The property must be qualifying property to be eligible.

To qualify for investment credit, the property must:

1. Be depreciable.
2. Have a useful life of at least 3 years.
3. Be tangible personal property or other tangible property (except buildings or their structural components), used as an integral part of manufacturing, production, or extraction, etc.
4. Be placed in-service in a trade or business or for production of income by you during the year. (However, see qualified progress expenditures, discussed later).

---

*April 15, 1978 was on a weekend.

*Suggested Teaching Strategy*

*Give each student a blank copy of Form 3468, or the completed form, Appendix F. Use the data in Section 6 of Appendix A to complete Form 3468 or to follow the completed form.*

KEY QUESTION 7. How do you complete Form 1040?

You have already completed Form 1040 through line 7. Now you will proceed to finish filling out Form 1040.

*Suggested Teaching Strategy*

*Each student should utilize the Form 1040 you gave them at the beginning of this module. Use the data from Section 7 of Appendix A as well as the Schedules completed for Key Questions 2,3,4,5 and 6 to complete a blank Form 1040, or to follow the completed form.*

KEY QUESTION 8. How do you calculate your quarterly liability for Federal Income Tax and Social Security withholdings?

This form combines the reporting of income tax withheld from wages, tips, annuities, supplemental unemployment compensation benefits, certain gambling winnings, and taxes under the Federal Insurance Contributions Act (FICA). If you have only one of these taxes to report, fill in only the applicable portions.

If you have one or more employees, you must file a return for the first quarter in which you are required to withhold income tax, or in which you pay wages subject to Social Security Tax, and for each quarter thereafter.

If you temporarily discontinue paying wages (for example, seasonal activities) you must still file returns. If you no longer expect to pay wages subject to any of the taxes reportable on this form, you must file a "Final" return.

Once you have filed a return, a preaddressed Form 941 will be sent to you every three months. If the form fails to reach you, request one in time to file.

Sale or transfer of business - If a business is sold or transferred by one employer to another, each must file a separate return. But neither should report wages paid by the other. Such a transfer occurs, for example, if a sole proprietor forms a partnership or a corporation.

If there has been a change of ownership or other transfer of the business during the quarter, attach a statement showing the name of the present owner; whether the present owner is an individual, a partnership or a corporation; the nature of the change or transfer and its date.

When a statutory merger or consolidation occurs, the obligation of the continuing corporation to file a Form 941 and report wages is the same as if the continuing and dissolved corporation constituted one person.

When to file - A return must be filed for each qarter of the calendar year as follows:

| Quarter Covered | Quarter Ending | Due On Or Before |
|---|---|---|
| January, February, March | March 31 | April 30 |
| April, May, June | June 30 | July 31 |
| July, August, September | September 30 | October 31 |
| October, November, December | December 31 | January 31 |

However, if the return shows timely deposits (Form 501) in full payment of the taxes due for the entire quarter, the return may be filed on or before the tenth of the second month following the quarter.

Penalties and Interest - The law provides penalties for filing a return late, paying taxes late or for making deposits late, unless reasonable cause is shown for the delay. If you are late in doing any of these, attach an explanation to your return.

*Suggested Teaching Strategy*

*Provide each student with a blank Form 941 or the completed form, Appendix J. Use the data in Appendices H & I to complete Form 941 or to follow the completed form.*

PART V. Summary

This module is not intended to make the student an expert on taxes. Going through the exercise should show the student that while tax computations may be complex and at times confusing, the job can be done. While most business owners will rely on the assistance of an accountant or tax consultant they must understand the basic process of data collection and how the various forms are used to bring all the current information to the IRS Forms 1040 and 941.

PART VI. Evaluation Instrument and/or Techniques

Students should be given a handout of the Glossary of Terms prior to the instruction of this module with instructions to study the terms listed.

After the completion of the module the student will be able to:

1. Calculate business profit (or loss).
2. Self-Employment Tax.
3. Investment credit.
4. Total tax due the IRS.
5. Complete a quarterly estimated income tax form.
6. Complete the Employer's Quarterly Federal Tax return.
7. Complete the Evaluation Instrument with 80% accuracy.

## EVALUATION INSTRUMENT

## TAXES AND DEPRECIATION

Name ____________________

Answer the following by circling "T" if the answer is true and "F" if the answer is false.

1. You should include your Social Security number with all correspondence about your Federal Income Tax. T F
2. Property with a useful life of less than one year can usually be depreciated. T F
3. If you use property for both business and personal uses you can only depreciate the portion of the property used for business. T F
4. You may use any reasonable method to compute depreciation. T F
5. Inventory at the end of the year would constitute your beginning inventory. T F
6. You do not have to pay Social Security Self-Employment Tax if you are over 65. T F
7. If both you and your spouse are self-employed each of you must file a separate Schedule SE. T F
8. There is no set rule for a sole proprietor to file a declaration of estimated income tax. T F
9. Your declaration of estimated income tax doesn't have to be filed until July 1. T F
10. To qualify for investment credit the property must be depreciable. T F
11. Self-employment income is generally reported on Schedule C. T F
12. You cannot subtract business losses from your income. T F
13. If you are married filing a joint return you should itemize your deductions if they are more than $3,200. T F
14. If you have five or less employees you do not have to file an Employer's Quarterly Federal Tax Return. T F
15. There are penalties for filing a late Employer's Quarterly Federal Tax Return. T F

## PART VII. Transparency Masters and Other Teaching Support Material

Glossary of Terms
Appendix A - Information for Completion of Sample Tax Exercise
Appendix B - Completed 1040 U.S. Individual Tax Return
Appendix C - Completed Schedule C (Form 1040)
Appendix D - Completed Schedule SE (Form 1040)
Appendix E - Completed Form 1040 ES
Appendix F - Completed Form 3468
Appendix G - Tax Table B
Appendix H - Individual Payroll Record
Appendix I - Information for Completing Form 941
Appendix J - Completed Form 941
Appendix K - Taxes and Depreciation Evaluation Instrument Key

# GLOSSARY OF TERMS

Capital Assets - Any assets, tangible or intangible, that are held for long-term investment.

Capital Gains - Profit resulting from the sale of capital investments, as stocks, real estate, etc. taxed at a lower rate than other income.

Dependent - A person who depends on someone else for financial support.

Depreciation - A reasonable allowance for the exhaustion, wear and tear, and obsolescence of depreciable property having a useful life of more than one year and is used in a trade or business, or held for production of income.

Exemption - The exempting from an individual's taxable income of a specific sum for oneself and each dependent.

Form 941 - Form used to report withheld income tax from wages and Social Security Taxes.

Form 1040 - Form used to report individual income.

Form 1040 Schedule ES - Form used to report estimated tax.

Income - The money or other gain received, especially in a given period, by an individual, corporation etc. for labor or service or from property, investments, operations, etc.

Inventory - An itemized list or catalog of goods, property, etc., such as a list of goods of a business, taken annually.

Internal Revenue Service (IRS) - The governmental agency which collects governmental income from taxes on income, profits, etc.

Investment Credit - Specific tax credit, currently at 10% on depreciable property for use in a business and placed in service during the tax year.

Schedule C (Form 1040) - Form used to report the income from a sole proprietorship.

Self-Employed - Working for oneself, with direct control over work, services, etc., undertaken and fees, charges, etc. set.

Sole Proprietorship - A business owned and operated by only one person.

Spouse - A partner in marriage; (one's) husband or wife.

Tax - A compulsory payment, usually a percentage, levied on income, property value, sales price, etc. for the support of a government.

# APPENDIX A

## INFORMATION FOR COMPLETION OF SAMPLE TAX EXERCISE

### 1. General Information

Owners:

Fred and Mary Smith

Address:

101 Main St.
Anytown, WI 54101

Social Security No.:

012-34-5678, 012-98-7654
Married filing Joint return

Age:

Both under 65

Occupations:

Owner, Store
Secretary

Employers I.D. No.:

#8901234

Three Children:

Tom, Ellen, Dan
(All under 18)

### 2. Schedule C-2 Depreciation Information

Furniture and fixtures acquired July 1975; cost $1,500; life 5 years; Depreciation in prior year $450; method straight-line; this year $300.

Truck acquired January 1976; cost $6,000; life 4 years; Depreciation in prior years $1,500; method straight-line; this year $1,500.

### 3. Schedule C Profit (or Loss) from Business or Profession

| | | | |
|---|---|---|---|
| Gross Receipts | $130,000 | Insurance | $ 500 |
| Beginning Inventory | 25,000 | Legal & Prof. Fees | 150 |
| Purchases | 90,000 | Interest Expense | 100 |
| Ending Inventory | 30,000 | Freight | 800 |
| Cost of Goods Sold | 85,000 | Advertising | 1,000 |
| Taxes or Licenses (Personal Property) | 2,500 | Truck Expense | 1,200 |
| | | Rent | 1,200 |
| Salaries & Wages | 15,500 | Supplies | 800 |
| Employees Share Social Security Tax | 906 | Utilities | 1,500 |

General Information:

a. Principal Activity: Retail sales, auto & truck parts
b. Business Name: Fred's Auto Parts
c. Employers I.D. No.: 8901234
d. Address: 101 Main St., Anytown, WI 54101
e. Method of Accounting: Cash
f. Form 941? Yes
g. Did you own the business at the end of 1977? Yes
h. Months: 12
i. Valuation Method: Cost, no change in method office in home? No

4. Schedule SE (Form 1040)

Computation of Social Security Self-Employment Tax - On line 5a enter $29,844 which comes from line 21 of Schedule C. Since this amount exceeds the $16,500 maximum enter $1,303.50 on line 18.

5. Form 1040 ES, Estimated Tax Declaration, Voucher for Individuals

Since these vouchers must be filed and payments made on April 15, June 15, Sept. 15 of the tax year and January 15 of the following year, the first three are an educated guess using the previous years income expenses and tax tables. For this illustration there would be an estimated tax liability of $5,200 less the $300 being withheld from the wife's salary or $4,900 + 4 = $1,250 per quarter (Note: The amounts on vouchers 2, 3, and 4 may be changed if there appears to be an increase or decrease in tax liability.

Department of the Treasury—Internal Revenue Service

# Form 1040 U.S. Individual Income Tax Return 1977

B

For the year January 1–December 31, 1977, or other taxable year beginning , 1977 ending , 19 .

Use IRS label. Otherwise, print or type.

First name and initial (if joint return, give first names and initials of both): Fred A. + mary B.
Last name: Smith
Present home address (Number and street, including apartment number, or rural route): 101 Main St.
City, town or post office, State and ZIP code: Anytown, Wisc 54101

Your social security number: 012 34 5678
Spouse's social security no.: 012 98 7654

**For Privacy Act Notice, see page 3 of Instructions.**

Occupation — Yours ▶ owner, Store
Spouse's ▶ Secretary

**Presidential Election Campaign Fund** ▶ Do you want $1 to go to this fund? . . . . . . . . . . . . ☐ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? . ☐ Yes ☐ No

**Note:** *Checking "Yes" will not increase your tax or reduce your refund.*

## Filing Status

Check Only One Box

1 ☐ Single
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separately. If spouse is also filing, give spouse's social security number in the space above and enter full name here ▶
4 ☐ Unmarried Head of Household. Enter qualifying name ▶ See page 7 of Instructions.
5 ☐ Qualifying widow(er) with dependent child (Year spouse died ▶ 19 ). See page 7 of Instructions.

## Exemptions

Always check the "Yourself" box. Check other boxes if they apply.

6a ☒ Yourself ☐ 65 or over ☐ Blind
b ☒ Spouse ☐ 65 or over ☐ Blind
Enter number of boxes checked on 6a and b ▶ 2

c First names of your dependent children who lived with you ▶ Tim, Ellen, Dan
Enter number of children listed ▶ 3

d Other dependents:

| (1) Name | (2) Relationship | (3) Number of months lived in your home. | (4) Did dependent have income of $750 or more? | (5) Did you provide more than one-half of dependent's support? |
|---|---|---|---|---|
| | | | | |
| | | | | |

Enter number of other dependents ▶ 0

7 Total number of exemptions claimed . . . . . . . . . . Add numbers entered in boxes above ▶ 5

Please Attach Copy B of Forms W–2 Here

## Income

| | | | |
|---|---|---|---|
| 8 | Wages, salaries, tips, and other employee compensation. (Attach Forms W–2. If unavailable, see page 5 of Instructions.) | 8 | 5200 00 |
| 9 | Interest income. (If over $400, attach Schedule B.) | 9 | 100 00 |
| 10a | Dividends (If over $400, attach Schedule B) ......., 10b less exclusion ......., Balance ▶ (See pages 9 and 17 of Instructions) | 10c | |

*(If you have no other income,* **skip** *lines 11 through 20 and go to line 21.)*

| | | | |
|---|---|---|---|
| 11 | State and local income tax refunds (does not apply if refund is for year you took standard deduction) | 11 | |
| 12 | Alimony received | 12 | |
| 13 | Business income or (loss) (attach Schedule C) | 13 | 20844 00 |
| 14 | Capital gain or (loss) (attach Schedule D) | 14 | |
| 15 | 50% of capital gain distributions not reported on Schedule D | 15 | |
| 16 | Net gain or (loss) from Supplemental Schedule of Gains and Losses (attach Form 4797) | 16 | |
| 17 | Fully taxable pensions and annuities not reported on Schedule E | 17 | |
| 18 | Pensions, annuities, rents, royalties, partnerships, estates or trusts, etc. (attach Schedule E) | 18 | |
| 19 | Farm income or (loss) (attach Schedule F) | 19 | |
| 20 | Other (state nature and source—see page 9 of Instructions) ▶ | 20 | |
| 21 | **Total income.** Add lines 8, 9, and 10c through 20 ▶ | 21 | 26144 00 |

Please Attach Check or Money Order Here

## Adjustments to Income

*(If none,* **skip** *lines 22 through 27 and enter zero on line 28.)*

| | | | |
|---|---|---|---|
| 22 | Moving expense (attach Form 3903) | 22 | |
| 23 | Employee business expenses (attach Form 2106) | 23 | |
| 24 | Payments to an individual retirement arrangement (from attached Form 5329, Part III) | 24 | |
| 25 | Payments to a Keogh (H.R. 10) retirement plan | 25 | |
| 26 | Forfeited interest penalty for premature withdrawal | 26 | |
| 27 | Alimony paid (see page 11 of Instructions) | 27 | |

| | | | |
|---|---|---|---|
| 28 | **Total adjustments.** Add lines 22 through 27 ▶ | 28 | 0 |
| 29 | Subtract line 28 from line 21 | 29 | 26144 00 |
| 30 | Disability income exclusion (sick pay) (attach Form 2440) | 30 | |
| 31 | **Adjusted gross income.** Subtract line 30 from line 29. Enter here and on line 32. If you want IRS to figure your tax for you, see page 4 of the Instructions ▶ | 31 | 26144 00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Tax Computation** | | | | | | |
| 32 Amount from line 31 | | | | 32 | 26144 | 00 |
| 33 If you itemize deductions, enter excess itemized deductions from Schedule A, line 41<br>If you do NOT itemize deductions, enter zero<br>**Caution:** *If you have unearned income and can be claimed as a dependent on your parent's return, check here* ▶ ☐ **and see page 11 of the Instructions. Also see page 11 of the Instructions if:**<br>● You are married filing a separate return and your spouse itemizes deductions, OR<br>● You file Form 4563, OR<br>● You are a dual-status alien. | | | | 33 | 0 | - |
| 34 Tax Table Income. Subtract line 33 from line 32<br>**Note:** See Instructions for line 35 on page 11. Then find your tax on the amount on line 34 in the Tax Tables. Enter the tax on line 35. However, if line 34 is more than $20,000 ($40,000 if you checked box 2 or 5) or you have more exemptions than those covered in the Tax Tables for your filing status, use Part I of Schedule TC (Form 1040) to figure your tax. You must also use Schedule TC if you file Schedule G (Form 1040), Income Averaging. | | | | 34 | 26144 | 00 |
| 35 Tax. Check if from ☐ Tax Tables or ☐ Schedule TC | | | | 35 | 4039 | - |
| 36 Additional taxes. (See page 12 of Instructions.) Check if from ☐ Form 4970, ☐ Form 4972, ☐ Form 5544, ☐ Form 5405, or ☐ Section 72(m)(5) penalty tax | | | | 36 | | |
| 37 **Total.** Add lines 35 and 36 ▶ | | | | 37 | 4039 | - |
| **Credits** | | | | | | |
| 38 Credit for contributions to candidates for public office | 38 | | | | | |
| 39 Credit for the elderly (attach Schedules R&RP) | 39 | | | | | |
| 40 Credit for child and dependent care expenses (attach Form 2441) | 40 | | | | | |
| 41 Investment credit (attach Form 3468) | 41 | 200 | - | | | |
| 42 Foreign tax credit (attach Form 1116) | 42 | | | | | |
| 43 Work Incentive (WIN) Credit (attach Form 4874) | 43 | | | | | |
| 44 New jobs credit (attach Form 5884) | 44 | | | | | |
| 45 See page 12 of Instructions | 45 | | | | | |
| 46 **Total credits.** Add lines 38 through 45 | | | | 46 | 200 | - |
| 47 **Balance.** Subtract line 46 from line 37 and enter difference (but not less than zero) ▶ | | | | 47 | 3839 | 00 |
| **Other Taxes** | | | | | | |
| 48 Self-employment tax (attach Schedule SE) | | | | 48 | 1303 | 50 |
| 49 Minimum tax. Check here ▶ ☐ and attach Form 4625 | | | | 49 | | |
| 50 Tax from recomputing prior-year investment credit (attach Form 4255) | | | | 50 | | |
| 51 Social security tax on tip income not reported to employer (attach Form 4137) | | | | 51 | | |
| 52 Uncollected employee social security tax on tips (from Form W-2) | | | | 52 | | |
| 53 Tax on an individual retirement arrangement (attach Form 5329) | | | | 53 | | |
| 54 **Total tax.** Add lines 47 through 53 ▶ | | | | 54 | 5142 | 50 |
| **Payments** | | | | | | |
| 55 Total Federal income tax withheld (attach Forms W-2, W-2G, and W-2P to front) | 55 | 300 | 00 | | | |
| 56 1977 estimated tax payments (include amount allowed as credit from 1976 return) | 56 | 4900 | 00 | | | |
| 57 Earned income credit. If line 31 is under $8,000, see page 2 of Instructions. If eligible, enter child's name ▶ | 57 | | | | | |
| 58 Amount paid with Form 4868 | 58 | | | | | |
| 59 Excess FICA and RRTA tax withheld (two or more employers) | 59 | | | | | |
| 60 Credit for Federal tax on special fuels, etc. (attach Form 4136) | 60 | | | | | |
| 61 Credit from a Regulated Investment Company (attach Form 2439) | 61 | | | | | |
| 61a See page 13 of Instructions | 61a | | | | | |
| 62 **Total.** Add lines 55 through 61a ▶ | | | | 62 | 5200 | 00 |
| **Refund or Due** | | | | | | |
| 63 If line 62 is larger than line 54, enter amount **OVERPAID** ▶ | | | | 63 | 57 | 50 |
| 64 Amount of line 63 to be **REFUNDED TO YOU** ▶ | | | | 64 | | |
| 65 Amount of line 63 to be credited on 1978 estimated tax ▶ | 65 | | | | | |
| 66 If line 54 is larger than line 62, enter **BALANCE DUE. Attach check or money order for full amount payable to "Internal Revenue Service." Write social security number on check or money order** ▶ (Check ▶ ☐ if Form 2210 (2210F) is attached. See page 14 of Instructions.) | | | | 66 | | |

**Please Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature Date

▶ Spouse's signature (if filing jointly, BOTH must sign even if only one had income)

▶ Paid preparer's signature and identifying number (see instructions)

▶ Paid preparer's address (or employer's name, address, and identifying number)

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**SCHEDULE C**
**(Form 1040)**
Department of the Treasury
Internal Revenue Service

# Profit or (Loss) From Business or Profession

(Sole Proprietorship)

**Partnerships, Joint Ventures, etc., Must File Form 1065.**

► Attach to Form 1040. ► See Instructions for Schedule C (Form 1040).

**1977**

Name of proprietor: Fred A + Mary B. Smith
Social security number: 012 34 5678

**A** Principal business activity (see Schedule C Instructions) ► Retail Sales; product ► Auto + Truck Parts
**B** Business name ► Freds Auto Parts
**C** Employer identification number ► 12345
**D** Business address (number and street) ► 100 Third St.
City, State and ZIP code ► Anytown, Wsc 54101

**C**

| | | Yes | No |
|---|---|---|---|
| **E** | Indicate method of accounting: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other ► | | |
| **F** | Was an Employer's Quarterly Federal Tax Return, Form 941, filed for this business for any quarter in 1977? | X | |
| **G** | Did you own the business at the end of 1977? | X | |
| **H** | How many months in 1977 did you own this business? ► | | |
| **I** | Check valuation method(s) used for total closing inventory: ☐ cost, ☐ lower of cost or market, ☐ other (if "other," attach explanation). | | |
| | Was there any substantial change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation. | | X |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Income** | 1 | Gross receipts or sales $ ........ Less: returns and allowances $ ........ Balance ► | | 1 | 130000 | - |
| | 2 | Less: Cost of goods sold and/or operations (Schedule C–1, line 8) | | 2 | 85000 | - |
| | 3 | Gross profit | | 3 | 45000 | - |
| | 4 | Other income (attach schedule) | | 4 | | |
| | 5 | Total income (add lines 3 and 4) | | 5 | 45000 | - |
| **Deductions** | 6 | Depreciation (explain in Schedule C–2) | | 6 | 1800 | - |
| | 7 | Taxes on business and business property | | 7 | 3406 | - |
| | 8 | Rent on business property | | 8 | 1200 | - |
| | 9 | Repairs | | 9 | | |
| | 10 | Salaries and wages not included on line 3, Schedule C–1 (exclude any paid to yourself) | | 10 | 15500 | - |
| | 11 | Insurance | | 11 | 500 | - |
| | 12 | Legal and professional fees | | 12 | 150 | - |
| | 13 | Commissions | | 13 | | |
| | 14 | Amortization (attach statement) | | 14 | | |
| | 15 | a Pension and profit-sharing plans (see Schedule C Instructions) | | 15a | | |
| | | b Employee benefit programs (see Schedule C Instructions) | | b | | |
| | 16 | Interest on business indebtedness | | 16 | 100 | - |
| | 17 | Bad debts arising from sales or services | | 17 | | |
| | 18 | Depletion | | 18 | | |
| | 19 | Other business expenses (specify): | | | | |
| | | a Advertising | 1000 - | | | |
| | | b Truck Expense | 1200 - | | | |
| | | c Utilities | 1500 - | | | |
| | | d Supplies | 800 - | | | |
| | | e | | | | |
| | | f | | | | |
| | | g | | | | |
| | | h | | | | |
| | | i | | | | |
| | | j | | | | |
| | | k | | | | |
| | | l | | | | |
| | | m | | | | |
| | | n | | | | |
| | | o | | | | |
| | | p Total other business expenses (add lines 19a through 19o) | | 19p | 4,500 | - |
| | 20 | Total deductions (add lines 6 through 19p) | | 20 | 24656 | - |
| 21 | | Net profit or (loss) (subtract line 20 from line 5). Enter here and on Form 1040, line 13. ALSO enter on Schedule SE, line 5a ► | | 21 | 20844 | - |

Did you claim a deduction for expenses of an office in your home? ☐ Yes ☐ No

## SCHEDULE C–1.—Cost of Goods Sold and/or Operations
(See Schedule C Instructions for Line 2)

| | | | |
|---|---|---|---|
| 1 Inventory at beginning of year (if different from last year's closing inventory, attach explanation) | 1 | 25000 | – |
| 2 Purchases $ 90,000 Less: cost of items withdrawn for personal use $ Balance ▶ | 2 | 90000 | – |
| 3 Cost of labor (do not include salary paid to yourself) | 3 | | |
| 4 Materials and supplies | 4 | | |
| 5 Other costs (attach schedule) | 5 | | |
| 6 Add lines 1 through 5 | 6 | 115000 | – |
| 7 Inventory at end of year | 7 | 30000 | – |
| 8 Cost of goods sold and/or operations (subtract line 7 from line 6). Enter here and on page 1, line 2 | 8 | 85000 | – |

## SCHEDULE C–2.—Depreciation (See Schedule C Instructions for Line 6)
If you need more space, use Form 4562.

| a. Description of property | b. Date acquired | c. Cost or other basis | d. Depreciation allowed or allowable in prior years | e. Method of computing depreciation | f. Life or rate | g. Depreciation for this year | |
|---|---|---|---|---|---|---|---|
| 1 Total additional first-year depreciation (do not include in items below) → | | | | | | | |
| 2 Other depreciation: | | | | | | | |
| Furn + Fixtures | 1 Jul 75 | 1500 | 450 | SL | 5 | 300 | – |
| Truck | 1 Jan 76 | 6000 | 1000 | SL | 6 | 1000 | – |
| Office Equip. | | 2900 | | SL | 6 | 500 | – |
| 3 Totals | | 10400 – | | | | 1800 | – |
| 4 Depreciation claimed in Schedule C–1, above | | | | | | | |
| 5 Balance (subtract line 4 from line 3). Enter here and on page 1, line 6 | | | | | | 1800 | – |

## SCHEDULE C–3.—Expense Account Information (See Schedule C Instructions for Schedule C–3)

Enter information with regard to yourself and your five highest paid employees. In determining the five highest paid employees, expense account allowances must be added to their salaries and wages. However, the information need not be submitted for any employee for whom the combined amount is less than $25,000, or for yourself if your expense account allowance plus line 21, page 1, is less than $25,000.

| Name | Expense account | Salaries and Wages |
|---|---|---|
| Owner | | ▨ |
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |

Did you claim a deduction for expenses connected with:

(1) Entertainment facility (boat, resort, ranch, etc.)? ☐ Yes ☐ No

(2) Living accommodations (except employees on business)? ☐ Yes ☐ No

(3) Employees' families at conventions or meetings? ☐ Yes ☐ No

(4) Employee or family vacations not reported on Form W-2? ☐ Yes ☐ No

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D

**SCHEDULE SE (Form 1040)**
Department of the Treasury
Internal Revenue Service

# Computation of Social Security Self-Employment Tax

▶ Each self-employed person must file a Schedule SE. ▶ Attach to Form 1040.
▶ See Instructions for Schedule SE (Form 1040).

**1977**

- If you had wages, including tips, of $16,500 or more that were subject to social security or railroad retirement taxes, do not fill in this schedule (unless you are eligible for the Earned Income Credit). See Instructions.
- If you had more than one business, combine profits and losses from all your businesses and farms on this Schedule SE.

**Important.**—The self-employment income reported below will be credited to your social security record and used in figuring social security benefits.

NAME OF SELF-EMPLOYED PERSON (AS SHOWN ON SOCIAL SECURITY CARD): Fred A. Smith

Social security number of self-employed person ▶ 012 : 34 : 5678

- If you have only farm income complete Parts I and III.
- If you have only nonfarm income complete Parts II and III.
- If you have both farm and nonfarm income complete Parts I, II, and III.

## Part I Computation of Net Earnings from FARM Self-Employment

You may elect to compute your net farm earnings using the OPTIONAL METHOD, line 3, instead of using the Regular Method, line 2, if your gross profits are: (1) $2,400 or less, or (2) more than $2,400 and net profits are less than $1,600. However, lines 1 and 2 must be completed even if you elect to use the FARM OPTIONAL METHOD.

| | | | |
|---|---|---|---|
| **REGULAR METHOD** | | | |
| 1 Net profit or (loss) from: a Schedule F, line 54 (cash method), or line 72 (accrual method) | 1a | | |
| b Farm partnerships | 1b | | |
| 2 Net earnings from farm self-employment (add lines 1a and b) | 2 | | |
| **FARM OPTIONAL METHOD** | | | |
| 3 If gross profits from farming[1] are: a Not more than $2,400, enter two-thirds of the gross profits<br>b More than $2,400 and the net farm profit is less than $1,600, enter $1,600 | 3 | | |
| 4 Enter here and on line 12a, the amount on line 2, or line 3 if you elect the farm optional method | 4 | | |

[1] Gross profits from farming are the total gross profits from Schedule F, line 28 (cash method), or line 70 (accrual method), plus the distributive share of gross profits from farm partnerships (Schedule K-1 (Form 1065), line 14(b)) as explained in instructions for Schedule SE.

## Part II Computation of Net Earnings from NONFARM Self-Employment

| | | | |
|---|---|---|---|
| **REGULAR METHOD** | | | |
| 5 Net profit or (loss) from: a Schedule C, line 21. (Enter combined amount if more than one business.) | 5a | 20844 | – |
| b Partnerships, joint ventures, etc. (other than farming) | 5b | | |
| c Service as a minister, member of a religious order, or a Christian Science practitioner. (Include rental value of parsonage or rental allowance furnished.) If you filed Form 4361, check here ▶ ☐ and enter zero on this line | 5c | | |
| d Service with a foreign government or international organization | 5d | | |
| e Other (See Form 1040 instructions for line 20.) Specify ▶ | 5e | | |
| 6 Total (add lines 5a through e) | 6 | 20844 | – |
| 7 Enter adjustments if any (attach statement) | 7 | | |
| 8 Adjusted net earnings or (loss) from nonfarm self-employment (line 6, as adjusted by line 7) | 8 | 20844 | – |

If line 8 is $1,600 or more **OR** if you do not elect to use the Nonfarm Optional Method, omit lines 9 through 11 and enter amount from line 8 on line 12b, Part III.

***Note:** You may use the nonfarm optional method (line 9 through line 11) only if line 8 is less than $1,600 and less than two-thirds of your gross nonfarm profits,[2] and you had actual net earnings from self-employment of $400 or more for at least 2 of the 3 following years: 1974, 1975, and 1976. The nonfarm optional method can only be used for 5 taxable years.*

**SE**

| | | | |
|---|---|---|---|
| **NONFARM OPTIONAL METHOD** | | | |
| 9 a Maximum amount reportable, under both optional methods combined (farm and nonfarm) | 9a | $1,600 | 00 |
| b Enter amount from line 3. (If you did not elect to use the farm optional method, enter zero) | 9b | | |
| c Balance (subtract line 9b from line 9a) | 9c | | |
| 10 Enter two-thirds of gross nonfarm profits[2] or $1,600, whichever is smaller | 10 | | |
| 11 Enter here and on line 12b, the amount on line 9c or line 10, whichever is smaller | 11 | | |

[2] Gross profits from nonfarm business are the total of the gross profits from Schedule C, line 3, plus the distributive share of gross profits from nonfarm partnerships (Schedule K-1 (Form 1065), line 14(b)) as explained in instructions for Schedule SE. Also, include gross profits from services reported on line 5c, d, and e, as adjusted by line 7.

## Part III Computation of Social Security Self-Employment Tax

| | | | |
|---|---|---|---|
| 12 Net earnings or (loss): a From farming (from line 4) | 12a | | |
| b From nonfarm (from line 8, or line 11 if you elect to use the Nonfarm Optional Method) | 12b | 20844 | – |
| 13 Total net earnings or (loss) from self-employment reported on line 12. **(If line 13 is less than $400, you are not subject to self-employment tax. Do not fill in rest of schedule.)** | 13 | 20844 | – |
| 14 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement taxes for 1977 is | 14 | $16,500 | 00 |
| 15 a Total "FICA" wages (from Forms W-2) and "RRTA" compensation — 15a | | | |
| b Unreported tips subject to FICA tax from Form 4137, line 9 or to RRTA — 15b | | | |
| c Total of lines 15a and b | 15c | | |
| 16 Balance (subtract line 15c from line 14) | 16 | 16500 | – |
| 17 Self-employment income—line 13 or 16, whichever is smaller | 17 | 16500 | – |
| 18 Self-employment tax. (If line 17 is $16,500, enter $1,303.50; if less, multiply the amount on line 17 by .079.) Enter here and on Form 1040, line 48 | 18 | 1303 | 50 |

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E

## 1978 Estimated Tax Worksheet (Keep for your records—Do Not File)

Name | Social Security Number

1 Enter amount of Adjusted Gross Income expected in taxable year . . . . . . . . . . . . . . . . . . . . . . .

2 a If you expect to itemize deductions, enter the estimated total of those deductions. If you do not expect to itemize deductions, omit lines 2a and b, and enter zero on line 2c. (See Caution in Instruction 12.) . . . . . . . . . . . . . . . . . . .

b Enter {$3,200 if married filing a joint return (or qualifying widow(er)) . . . . . . . . . / $2,200 if single (or head of household) . . . . . . . . . . . . / $1,600 if married filing a separate return . . . . . . . . . . . . .}

c Subtract line 2b from line 2a (if zero or less, enter zero) . . . . . . . . . . . . . . . . . . . . . . .

3 Subtract line 2c from line 1. (See Instruction 12) . . . . . . . . . . . . . . . . . . . . . . . . . .

4 Exemptions ($750 for each, including additional exemptions for age and blindness) . . . . . . . . . .

5 Subtract line 4 from line 3. This is your estimated taxable income . . . . . . . . . . . . . . . . . . . .

6 Tax. (All filers compute tax on the amount on line 5 by using Tax Rate Schedule X, Y or Z from the 1977 Form 1040 instructions.) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

7 General tax credit (see Instruction 13) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

8 Subtract line 7 from line 6. Add to this amount any additional taxes from Instruction 14 . . . . . . . .

9 Credits (credit for the elderly, credit for child care expenses, investment credit, etc.) . . . . . . . . .

10 Subtract line 9 from line 8 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

11 Tax from recomputing a prior year investment credit and work incentive (WIN) credit . . . . . . . . .

12 Estimate of 1978 self-employment income $..............................; if $17,700 or more, enter $1,433.70, if less, multiply the amount by .081. If joint declaration and both have self-employment income, make separate computations . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

13 Tax on premature distributions from a self-employed retirement plan or an individual retirement arrangement

14 Add lines 10 through 13 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

15 (a) Earned income credit (see Instruction 15) . . . . . . . . . . . . .

(b) Estimated income tax withheld and to be withheld during 1978 . . . . . . .

(c) Credit for Federal tax on gasoline, special fuels, and lubricating oil (see Form 4136)

16 Total (add lines 15(a), (b) and (c)) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

17 Estimated tax (subtract line 16 from line 14). Enter here and in Block A on declaration-voucher. If $100 or more, file the declaration-voucher, if less, no declaration is required . . . . . . . . . . . . . . . .

18 Computation of installments— If declaration is due to be filed on: {April 17, 1978, enter ¼ . . . . / June 15, 1978, enter ⅓ . . . . / September 15, 1978, enter ½ . . / January 15, 1979, enter amount . .} of line 17 here and on line 1 of original and subsequent declaration-vouchers . .

**Note:** *If your estimated tax should change during the year, you may use the amended computation on page 1 to determine amended amounts to enter on your declaration-voucher.*

Page 2

Detach here

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Form **1040-ES**
Department of the Treasury
Internal Revenue Service

## Estimated Tax Declaration–Voucher for Individuals—1978

(To be used for making declaration and payment)

Voucher 4
(Calendar year—Due Jan. 15, 1979)

*A. Estimated tax or amended estimated tax for the year ending 12-77 (month and year)

$ 4900

*B. Overpayment from last year credited to estimated tax for this year

$ -0-

1 Amount of this installment . . . ▶ $ 1250

2 Amount of any unused overpayment credit applied to this installment (see Instruction 9) . . . . . . . . . . . . . ▶

3 Amount of this installment payment (subtract line 2 from line 1) . . . . ▶ $ 1250

**If this is an original declaration–voucher, file even if line 3 is zero.**

*Sign ▶ Fred A Smith
Your Signature
here ▶

If fiscal year taxpayer, see Instruction 11.

- * Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

**Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration-voucher, see Instruction 4.**

Please type or print

| | |
|---|---|
| Your social security number | Spouse's number, if joint declaration |
| First name and middle initial (of both spouses if joint declaration) | Last name |

Address (Number and street)

City, State, and ZIP code

243

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

## Estimated Tax Declaration–Voucher for Individuals—1978

(To be used for making declaration and payment)

Voucher **3**
(Calendar year—Due Sept. 15, 1978)

*A. Estimated tax or amended estimated tax for the year ending 12-77 (month and year)
$ 4900

*B. Overpayment from last year credited to estimated tax for this year
$ -0-

1 Amount of this installment . . . ▶ $ 1250
2 Amount of any unused overpayment credit applied to this installment (see Instruction 9) . . . . . . . . . . . . ▶
3 Amount of this installment payment (subtract line 2 from line 1) . . . . ▶ $ 1250

**If this is an original declaration–voucher, file even if line 3 is zero.**

*Sign here ▶ Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

**Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 4.**

Please type or print

Your social security number
Spouse's number, if joint declaration
First name and middle initial (of both spouses if joint declaration)
Last name
Address (Number and street)
City, State, and ZIP code

**Detach here**

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Form **1040-ES**
Department of the Treasury
Internal Revenue Service

## Estimated Tax Declaration–Voucher for Individuals—1978

(To be used for making declaration and payment)

Voucher **2**
(Calendar year—Due June 15, 1978)

*A. Estimated tax or amended estimated tax for the year ending 12-77 (month and year)
$ 4900

*B. Overpayment from last year credited to estimated tax for this year
$ -0-

1 Amount of this installment . . . ▶ $ 1250
2 Amount of any unused overpayment credit applied to this installment (see Instruction 9) . . . . . . . . . . . . ▶
3 Amount of this installment payment (subtract line 2 from line 1) . . . . ▶ $ 1250

**If this is an original declaration–voucher, file even if line 3 is zero.**

*Sign here ▶ Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Complete only if this is an original or amended declaration and your total estimated tax for the year is $100.00 or more.

**Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 4.**

Please type or print

Your social security number
Spouse's number, if joint declaration
First name and middle initial (of both spouses if joint declaration)
Last name
Address (Number and street)
City, State, and ZIP code

**Detach here**

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Form **1040-ES**
Department of the Treasury
Internal Revenue Service

## Estimated Tax Declaration–Voucher for Individuals—1978

(To be used for making declaration and payment)

Voucher **1**
(Calendar Year—Due April 17, 1978)

*A. Estimated tax for the year ending 12-77 (month and year)
$ 4900

B. Overpayment from last year credited to estimated tax for this year
$ -0-

1 Amount of this installment . . . ▶ $ 1250
2 Amount of overpayment credit from last year (all or part) applied to this installment (see Instruction 9) . . ▶
3 Amount of this installment payment (subtract line 2 from line 1) . . . . ▶ $ 1250

**File this original declaration–voucher even if line 3 is zero.**

Sign here ▶ Fred A. Smith
Your Signature
▶ Spouse's signature (if joint declaration)

If fiscal year taxpayer, see Instruction 11.

* Do not file this declaration–voucher if your total estimated tax for the year is less than $100.00.

**Return this voucher with check or money order payable to the Internal Revenue Service. For where to file your declaration–voucher, see Instruction 4.**

Please type or print

Your social security number: 012-34-5678
Spouse's number, if joint declaration: 012-98-7654
First name and middle initial (of both spouses if joint declaration): Fred A. + Mary B.
Last name: Smith
Address (Number and street): 101 Main St.
City, State, and ZIP code: Anytown, Wisc. 5401

F

Form **3468**
Department of the Treasury
Internal Revenue Service

# Computation of Investment Credit

▶ Attach to your tax return.

# 1977

Name: Fred A. + Mary B. Smith

Identifying number as shown on page 1 of your tax return: 012-34-5678

1 Use schedule below to list qualified investment in new and used property acquired or constructed and placed in service during the taxable year; and also list qualified progress expenditures made during the 1977 taxable year and qualified progress expenditures made in 1974, 1975, and 1976 taxable years providing a proper election as prescribed in section 46(d)(6) was made for such prior years. If progress expenditure property is placed in service during the taxable year, do not list qualified progress expenditures for this property. See instruction for line 1.

If 100% investment credit is being claimed on certain ships, check this block. ▶ ☐ See Instruction K for details.

**Note:** *Include your share of investment in property made by a partnership, estate, trust, small business corporation, or lessor.*

| Type of property | | Line | (1) Life years | (2) Cost or basis (See instruction G) | (3) Applicable percentage | (4) Qualified investment (Column 2 x column 3) |
|---|---|---|---|---|---|---|
| New property | | (a) | 3 or more but less than 5 | | 33⅓ | |
| | | (b) | 5 or more but less than 7 | 3000 | 66⅔ | 2000 |
| | | (c) | 7 or more | | 100 | |
| Qualified progress expenditures | 1974, 1975 and 1976 | (d) | 7 or more | | 20 | |
| | 1977 | (e) | 7 or more | | 60 | |
| Used property (See instructions for dollar limitation) | | (f) | 3 or more but less than 5 | | 33⅓ | |
| | | (g) | 5 or more but less than 7 | | 66⅔ | |
| | | (h) | 7 or more | | 100 | |

| | | |
|---|---|---|
| 2 Qualified investment—add lines 1(a) through (h) | | 2000 |
| 3 10% of line 2 | | 200 |
| 4 7% (4% for public utility property) of certain property (see instruction for line 1) | | |
| 5 Corporations electing the additional investment credit for contributions to Employee Stock Ownership Plans—Attach election statement. (See Instruction I and instruction for line 5.) | | |
| (a) Additional 1% credit—Enter 1% of line 2 | | |
| (b) Additional credit not to exceed .5%—Enter allowable percentage times adjusted line 2 (attach schedule) | | |
| 6 Carryback and carryover of unused credit(s). See Instruction F—attach computation | | |
| 7 Tentative investment credit—Add lines 3 through 6 | | 200 |
| **Limitation** | | |
| 8 (a) Individuals—Enter amount from line 37, page 2, Form 1040<br>(b) Estates and trusts—Enter amount from line 26 or 27, page 1, Form 1041<br>(c) Corporations—Enter amount from line 9, Schedule J, page 3, Form 1120 | | 5030 |
| 9 (a) Credit for the elderly (individuals only) | | |
| (b) Foreign tax credit | | |
| (c) Tax on lump-sum distributions (see instruction for line 9(c)) | | |
| (d) Possession Tax Credit (corporations only) | | |
| (e) Section 72(m)(5) penalty tax | | |
| 10 Total—Add lines 9(a) through (e) | | |
| 11 Line 8 less line 10 | | 5030 |
| 12 (a) Enter amount on line 11 or $25,000, whichever is lesser. (Married persons filing separately, controlled corporate groups, estates, and trusts, see instruction for line 12.) | | 5030 |
| (b) If line 11 exceeds line 12(a), enter 50% of the excess. (Public utilities, railroads, and airlines, see Instruction J.) | | |
| 13 Total—Add lines 12(a) and (b) | | 5030 |
| 14 Investment credit—Amount from line 7 or line 13, whichever is lesser. Enter here and on line 41, Form 1040; line 10(b), Schedule J, page 3, Form 1120; or the appropriate line on other returns | | 200 |

**Schedule A** **If any part of your investment in line 1 or 4 above was made by a partnership, estate, trust, small business corporation, or lessor, complete the following statement and identify property qualifying for the 7% or 10% investment credit.**

| Name (Partnership, estate, trust, etc.) | Address | Property: Progress expenditures | Property: New | Property: Used | Life years |
|---|---|---|---|---|---|
| | | $ | $ | $ | |
| | | | | | |

245

If property is disposed of prior to the life years used in computing the investment credit, see Instruction E.

## 1977 Tax Table B—MARRIED FILING JOINTLY (Box 2) and QUALIFYING WIDOW(ER)S (Box 5)

*(Continued)*

(If your income or exemptions are not covered, use Schedule TC (Form 1040), Part I to figure your tax)

| If line 34, Form 1040 is— | | And the total number of exemptions claimed on line 7 is— | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Over | But not over | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| | | Your tax is— | | | | | | | |
| 26,000 | 26,050 | 4,624 | 4,384 | 4,151 | 3,941 | 3,701 | 3,456 | 3,211 | 2,966 |
| 26,050 | 26,100 | 4,640 | 4,400 | 4,165 | 3,955 | 3,715 | 3,470 | 3,225 | 2,980 |
| 26,100 | 26,150 | 4,656 | 4,416 | 4,179 | 3,969 | 3,729 | 3,484 | 3,239 | 2,994 |
| 26,150 | 26,200 | 4,672 | 4,432 | 4,193 | 3,983 | 3,743 | 3,498 | 3,253 | 3,008 |
| 26,200 | 26,250 | 4,688 | 4,448 | 4,208 | 3,997 | 3,757 | 3,512 | 3,267 | 3,022 |
| 26,250 | 26,300 | 4,704 | 4,464 | 4,224 | 4,011 | 3,771 | 3,526 | 3,281 | 3,036 |
| 26,300 | 26,350 | 4,720 | 4,480 | 4,240 | 4,025 | 3,785 | 3,540 | 3,295 | 3,050 |
| 26,350 | 26,400 | 4,736 | 4,496 | 4,256 | 4,039 | 3,799 | 3,554 | 3,309 | 3,064 |
| 26,400 | 26,450 | 4,752 | 4,512 | 4,272 | 4,053 | 3,813 | 3,568 | 3,323 | 3,078 |
| 26,450 | 26,500 | 4,768 | 4,528 | 4,288 | 4,067 | 3,827 | 3,582 | 3,337 | 3,092 |
| 26,500 | 26,550 | 4,784 | 4,544 | 4,304 | 4,081 | 3,841 | 3,596 | 3,351 | 3,106 |
| 26,550 | 26,600 | 4,800 | 4,560 | 4,320 | 4,095 | 3,855 | 3,610 | 3,365 | 3,120 |
| 26,600 | 26,650 | 4,816 | 4,576 | 4,336 | 4,109 | 3,869 | 3,624 | 3,379 | 3,134 |
| 26,650 | 26,700 | 4,832 | 4,592 | 4,352 | 4,123 | 3,883 | 3,638 | 3,393 | 3,148 |
| 26,700 | 26,750 | 4,848 | 4,608 | 4,368 | 4,137 | 3,897 | 3,652 | 3,407 | 3,162 |
| 26,750 | 26,800 | 4,864 | 4,624 | 4,384 | 4,151 | 3,911 | 3,666 | 3,421 | 3,176 |
| 26,800 | 26,850 | 4,880 | 4,640 | 4,400 | 4,165 | 3,925 | 3,680 | 3,435 | 3,190 |
| 26,850 | 26,900 | 4,896 | 4,656 | 4,416 | 4,179 | 3,939 | 3,694 | 3,449 | 3,204 |
| 26,900 | 26,950 | 4,912 | 4,672 | 4,432 | 4,193 | 3,953 | 3,708 | 3,463 | 3,218 |
| 26,950 | 27,000 | 4,928 | 4,688 | 4,448 | 4,208 | 3,967 | 3,722 | 3,477 | 3,232 |
| 27,000 | 27,050 | 4,944 | 4,704 | 4,464 | 4,224 | 3,981 | 3,736 | 3,491 | 3,246 |
| 27,050 | 27,100 | 4,960 | 4,720 | 4,480 | 4,240 | 3,995 | 3,750 | 3,505 | 3,260 |
| 27,100 | 27,150 | 4,976 | 4,736 | 4,496 | 4,256 | 4,009 | 3,764 | 3,519 | 3,274 |
| 27,150 | 27,200 | 4,992 | 4,752 | 4,512 | 4,272 | 4,023 | 3,778 | 3,533 | 3,288 |
| 27,200 | 27,250 | 5,008 | 4,768 | 4,528 | 4,288 | 4,037 | 3,792 | 3,547 | 3,302 |
| 27,250 | 27,300 | 5,024 | 4,784 | 4,544 | 4,304 | 4,051 | 3,806 | 3,561 | 3,316 |
| 27,300 | 27,350 | 5,040 | 4,800 | 4,560 | 4,320 | 4,065 | 3,820 | 3,575 | 3,330 |
| 27,350 | 27,400 | 5,056 | 4,816 | 4,576 | 4,336 | 4,079 | 3,834 | 3,589 | 3,344 |
| 27,400 | 27,450 | 5,072 | 4,832 | 4,592 | 4,352 | 4,093 | 3,848 | 3,603 | 3,358 |
| 27,450 | 27,500 | 5,088 | 4,848 | 4,608 | 4,368 | 4,107 | 3,862 | 3,617 | 3,372 |
| 27,500 | 27,550 | 5,104 | 4,864 | 4,624 | 4,384 | 4,121 | 3,876 | 3,631 | 3,386 |
| 27,550 | 27,600 | 5,120 | 4,880 | 4,640 | 4,400 | 4,135 | 3,890 | 3,645 | 3,400 |
| 27,600 | 27,650 | 5,136 | 4,896 | 4,656 | 4,416 | 4,149 | 3,904 | 3,659 | 3,414 |
| 27,650 | 27,700 | 5,152 | 4,912 | 4,672 | 4,432 | 4,163 | 3,918 | 8,673 | 3,428 |
| 27,700 | 27,750 | 5,168 | 4,928 | 4,688 | 4,448 | 4,178 | 3,932 | 3,687 | 3,442 |
| 27,750 | 27,800 | 5,184 | 4,944 | 4,704 | 4,464 | 4,194 | 3,946 | 3,701 | 3,456 |
| 27,800 | 27,850 | 5,200 | 4,960 | 4,720 | 4,480 | 4,210 | 3,960 | 3,715 | 3,470 |
| 27,850 | 27,900 | 5,216 | 4,976 | 4,736 | 4,496 | 4,226 | 3,974 | 3,729 | 3,484 |
| 27,900 | 27,950 | 5,232 | 4,992 | 4,752 | 4,512 | 4,242 | 3,988 | 3,743 | 3,498 |
| 27,950 | 28,000 | 5,248 | 5,008 | 4,768 | 4,528 | 4,258 | 4,002 | 3,757 | 3,512 |
| 28,000 | 28,050 | 5,264 | 5,024 | 4,784 | 4,544 | 4,274 | 4,016 | 3,771 | 3,526 |
| 28,050 | 28,100 | 5,280 | 5,040 | 4,800 | 4.560 | 4,290 | 4,030 | 3,785 | 3,540 |
| 28,100 | 28,150 | 5,296 | 5,056 | 4,816 | 4,576 | 4,306 | 4,044 | 3,799 | 3,554 |
| 28,150 | 28,200 | 5,312 | 5,072 | 4,832 | 4,592 | 4,322 | 4,058 | 3,813 | 3,568 |
| 28,200 | 28,250 | 5,328 | 5,088 | 4,848 | 4,608 | 4,338 | 4,072 | 3,827 | 3,582 |
| 28,250 | 28,300 | 5,344 | 5,104 | 4,864 | 4,624 | 4,354 | 4,086 | 3,841 | 3,596 |
| 28,300 | 28,350 | 5,360 | 5,120 | 4,880 | 4,640 | 4,370 | 4,100 | 3,855 | 3,610 |
| 28,350 | 28,400 | 5,376 | 5,136 | 4,896 | 4,656 | 4,386 | 4,114 | 3,869 | 3,624 |
| 28,400 | 28,450 | 5,392 | 5,152 | 4,912 | 4,672 | 4,402 | 4,128 | 3,883 | 3,638 |
| 28,450 | 28,500 | 5,408 | 5,168 | 4,928 | 4,688 | 4,418 | 4,143 | 3,897 | 3,652 |
| 28,500 | 28,550 | 5,424 | 5,184 | 4,944 | 4,704 | 4,434 | 4,159 | 3,911 | 3,666 |
| 28,550 | 28,600 | 5,440 | 5,200 | 4,960 | 4,720 | 4,450 | 4,175 | 3,925 | 3,680 |
| 28,600 | 28,650 | 5,456 | 5,216 | 4,976 | 4,736 | 4,466 | 4,191 | 3,939 | 3,694 |
| 28,650 | 28,700 | 5,472 | 5,232 | 4,992 | 4,752 | 4,482 | 4,207 | 3,953 | 3,708 |
| 28,700 | 28,750 | 5,489 | 5,248 | 5,008 | 4,768 | 4,498 | 4,223 | 3,967 | 3,722 |
| 28,750 | 28,800 | 5,507 | 5,264 | 5,024 | 4,784 | 4,514 | 4,239 | 3,981 | 3,736 |
| 28,800 | 28,850 | 5,525 | 5,280 | 5,040 | 4,800 | 4,530 | 4,255 | 3,995 | 3,750 |
| 28,850 | 28,900 | 5,543 | 5,296 | 5,056 | 4,816 | 4,546 | 4,271 | 4,009 | 3,764 |
| 28,900 | 28,950 | 5,561 | 5,312 | 5,072 | 4,832 | 4,562 | 4,287 | 4,023 | 3,778 |
| 28,950 | 29,000 | 5,579 | 5,328 | 5,088 | 4,848 | 4,578 | 4,303 | 4,037 | 3,792 |
| 29,000 | 29,050 | 5,597 | 5,344 | 5,104 | 4,864 | 4,594 | 4,319 | 4,051 | 3,806 |
| 29,050 | 29,100 | 5,615 | 5,360 | 5,120 | 4,880 | 4,610 | 4,335 | 4,065 | 3,820 |
| 29,100 | 29,150 | 5,633 | 5,376 | 5,136 | 4,896 | 4,626 | 4,351 | 4,079 | 3,834 |
| 29,150 | 29,200 | 5,651 | 5,392 | 5,152 | 4,912 | 4,642 | 4,367 | 4,093 | 3,848 |
| 29,200 | 29,250 | 5,669 | 5,408 | 5,168 | 4,928 | 4,658 | 4,383 | 4,108 | 3,862 |
| 29,250 | 29,300 | 5,687 | 5,424 | 5,184 | 4,944 | 4,674 | 4,399 | 4,124 | 3,876 |
| 29,300 | 29,350 | 5,705 | 5,440 | 5,200 | 4,960 | 4,690 | 4,415 | 4,140 | 3,890 |
| 29,350 | 29,400 | 5,723 | 5,456 | 5,216 | 4,976 | 4,706 | 4,431 | 4,156 | 3,904 |
| 29,400 | 29,450 | 5,741 | 5,472 | 5,232 | 4,992 | 4,722 | 4,447 | 4,172 | 3,918 |
| 29,450 | 29,500 | 5,759 | 5,489 | 5,248 | 5,008 | 4,738 | 4,463 | 4,188 | 3,932 |
| 29,500 | 29,550 | 5,777 | 5,507 | 5,264 | 5,024 | 4,754 | 4,479 | 4,204 | 3,946 |
| 29,550 | 29,600 | 5,795 | 5,525 | 5,280 | 5,040 | 4,770 | 4,495 | 4,220 | 3,960 |
| 29,600 | 29,650 | 5,813 | 5,543 | 5,296 | 5,056 | 4,786 | 4,511 | 4,236 | 3,974 |
| 29,650 | 29,700 | 5,831 | 5,561 | 5,312 | 5,072 | 4,802 | 4,527 | 4,252 | 3,988 |
| 29,700 | 29,750 | 5,849 | 5,579 | 5,328 | 5,088 | 4,818 | 4,543 | 4,268 | 4,002 |
| 29,750 | 29,800 | 5,867 | 5,597 | 5,344 | 5,104 | 4,834 | 4,559 | 4,284 | 4,016 |
| 29,800 | 29,850 | 5,885 | 5,615 | 5,360 | 5,120 | 4,850 | 4,575 | 4,300 | 4,030 |
| 29,850 | 29,900 | 5,903 | 5,633 | 5,376 | 5,136 | 4,866 | 4,591 | 4,316 | 4,044 |
| 29,900 | 29,950 | 5,921 | 5,651 | 5,392 | 5,152 | 4,882 | 4,607 | 4,332 | 4,058 |
| 29,950 | 30,000 | 5,939 | 5,669 | 5,408 | 5,168 | 4,898 | 4,623 | 4,348 | 4,073 |
| 30,000 | 30,050 | 5,957 | 5,687 | 5,424 | 5,184 | 4,914 | 4,639 | 4,364 | 4,089 |
| 30,050 | 30,100 | 5,975 | 5,705 | 5,440 | 5,200 | 4,930 | 4,655 | 4,380 | 4,105 |
| 30,100 | 30,150 | 5,993 | 5,723 | 5,456 | 5,216 | 4,946 | 4,671 | 4,396 | 4,121 |
| 30,150 | 30,200 | 6,011 | 5,741 | 5,472 | 5,232 | 4,962 | 4,687 | 4,412 | 4,137 |
| 30,200 | 30,250 | 6,029 | 5,759 | 5,489 | 5,248 | 4,978 | 4,703 | 4,428 | 4,153 |
| 30,250 | 30,300 | 6,047 | 5,777 | 5,507 | 5,264 | 4,994 | 4,719 | 4,444 | 4,169 |
| 30,300 | 30,350 | 6,065 | 5,795 | 5,525 | 5,280 | 5,010 | 4,735 | 4,460 | 4,185 |
| 30,350 | 30,400 | 6,083 | 5,813 | 5,543 | 5,296 | 5,026 | 4,751 | 4,476 | 4,201 |
| 30,400 | 30,450 | 6,101 | 5,831 | 5,561 | 5,312 | 5,042 | 4,767 | 4,492 | 4,217 |
| 30,450 | 30,500 | 6,119 | 5,849 | 5,579 | 5,328 | 5,058 | 4,783 | 4,508 | 4,233 |
| 30,500 | 30,550 | 6,137 | 5,867 | 5,597 | 5,344 | 5,074 | 4,799 | 4,524 | 4,249 |
| 30,550 | 30,600 | 6,155 | 5,885 | 5,615 | 5,360 | 5,090 | 4,815 | 4,540 | 4,265 |
| 30,600 | 30,650 | 6,173 | 5,903 | 5,633 | 5,376 | 5,106 | 4,831 | 4,556 | 4,281 |
| 30,650 | 30,700 | 6,191 | 5,921 | 5,651 | 5,392 | 5,122 | 4,847 | 4,572 | 4,297 |
| 30,700 | 30,750 | 6,209 | 5,939 | 5,669 | 5,408 | 5,138 | 4,863 | 4,588 | 4,313 |
| 30,750 | 30,800 | 6,227 | 5,957 | 5,687 | 5,424 | 5,154 | 4,879 | 4,604 | 4,329 |
| 30,800 | 30,850 | 6,245 | 5,975 | 5,705 | 5,440 | 5,170 | 4,895 | 4,620 | 4,345 |
| 30,850 | 30,900 | 6,263 | 5,993 | 5,723 | 5,456 | 5,186 | 4,911 | 4,636 | 4,361 |
| 30,900 | 30,950 | 6,281 | 6,011 | 5,741 | 5,472 | 5,202 | 4,927 | 4,652 | 4,377 |
| 30,950 | 31,000 | 6,299 | 6,029 | 5,759 | 5,489 | 5,218 | 4,943 | 4,668 | 4,393 |
| 31,000 | 31,050 | 6,317 | 6,047 | 5,777 | 5,507 | 5,234 | 4,959 | 4,684 | 4,409 |
| 31,050 | 31,100 | 6,335 | 6,065 | 5,795 | 5,525 | 5,250 | 4,975 | 4,700 | 4,425 |
| 31,100 | 31,150 | 6,353 | 6,083 | 5,813 | 5,543 | 5,266 | 4,991 | 4,716 | 4,441 |
| 31,150 | 31,200 | 6,371 | 6,101 | 5,831 | 5,561 | 5,282 | 5,007 | 4,732 | 4,457 |
| 31,200 | 31,250 | 6,389 | 6,119 | 5,849 | 5,579 | 5,298 | 5,023 | 4,748 | 4,473 |
| 31,250 | 31,300 | 6,407 | 6,137 | 5,867 | 5,597 | 5,314 | 5,039 | 4,764 | 4,489 |
| 31,300 | 31,350 | 6,425 | 6,155 | 5,885 | 5,615 | 5,330 | 5,055 | 4,780 | 4,505 |
| 31,350 | 31,400 | 6,443 | 6,173 | 5,903 | 5,633 | 5,346 | 5,071 | 4,796 | 4,521 |
| 31,400 | 31,450 | 6,461 | 6,191 | 5,921 | 5,651 | 5,362 | 5,087 | 4,812 | 4,537 |
| 31,450 | 31,500 | 6,479 | 6,209 | 5,939 | 5,669 | 5,378 | 5,103 | 4,828 | 4,553 |
| 31,500 | 31,550 | 6,497 | 6,227 | 5,957 | 5,687 | 5,394 | 5,119 | 4,844 | 4,569 |
| 31,550 | 31,600 | 6,515 | 6,245 | 5,975 | 5,705 | 5,410 | 5,135 | 4,860 | 4,585 |
| 31,600 | 31,650 | 6,533 | 6,263 | 5,993 | 5,723 | 5,426 | 5,151 | 4,876 | 4,601 |
| 31,650 | 31,700 | 6,551 | 6,281 | 6,011 | 5,741 | 5,442 | 5,167 | 4,892 | 4,617 |
| 31,700 | 31,750 | 6,569 | 6,299 | 6,029 | 5,759 | 5,459 | 5,183 | 4,908 | 4,633 |
| 31,750 | 31,800 | 6,587 | 6,317 | 6,047 | 5,777 | 5,477 | 5,199 | 4,924 | 4,649 |
| 31,800 | 31,850 | 6,605 | 6,335 | 6,065 | 5,795 | 5,495 | 5,215 | 4,940 | 4,665 |
| 31,850 | 31,900 | 6,623 | 6,353 | 6,083 | 5,813 | 5,513 | 5,231 | 4,956 | 4,681 |
| 31,900 | 31,950 | 6,641 | 6,371 | 6,101 | 5,831 | 5,531 | 5,247 | 4,972 | 4,697 |
| 31,950 | 32,000 | 6,659 | 6,389 | 6,119 | 5,849 | 5,549 | 5,263 | 4,988 | 4,713 |
| 32,000 | 32,050 | 6,677 | 6,407 | 6,137 | 5,867 | 5,567 | 5,279 | 5,004 | 4,729 |
| 32,050 | 32,100 | 6,695 | 6,425 | 6,155 | 5,885 | 5,585 | 5,295 | 5,020 | 4,745 |
| 32,100 | 32,150 | 6,713 | 6,443 | 6,173 | 5,903 | 5,603 | 5,311 | 5,036 | 4,761 |
| 32,150 | 32,200 | 6,731 | 6,461 | 6,191 | 5,921 | 5,621 | 5,327 | 5,052 | 4,777 |
| 32,200 | 32,250 | 6,749 | 6,479 | 6,209 | 5,939 | 5,639 | 5,343 | 5,068 | 4,793 |
| 32,250 | 32,300 | 6,767 | 6,497 | 6,227 | 5,957 | 5,657 | 5,359 | 5,084 | 4,809 |
| 32,300 | 32,350 | 6,785 | 6,515 | 6,245 | 5,975 | 5,675 | 5,375 | 5,100 | 4,825 |
| 32,350 | 32,400 | 6,803 | 6,533 | 6,263 | 5,993 | 5,693 | 5,391 | 5,116 | 4,841 |
| 32,400 | 32,450 | 6,821 | 6,551 | 6,281 | 6,011 | 5,711 | 5,407 | 5,132 | 4,857 |
| 32,450 | 32,500 | 6,839 | 6,569 | 6,299 | 6,029 | 5,729 | 5,424 | 5,148 | 4,873 |
| 32,500 | 32,550 | 6,857 | 6,587 | 6,317 | 6,047 | 5,747 | 5,442 | 5,164 | 4,889 |
| 32,550 | 32,600 | 6,875 | 6,605 | 6,335 | 6,065 | 5,765 | 5,460 | 5,180 | 4,905 |
| 32,600 | 32,650 | 6,893 | 6,623 | 6,353 | 6,083 | 5,783 | 5,478 | 5,196 | 4,921 |
| 32,650 | 32,700 | 6,911 | 6,641 | 6,371 | 6,101 | 5,801 | 5,496 | 5,212 | 4,937 |
| 32,700 | 32,750 | 6,930 | 6,659 | 6,389 | 6,119 | 5,819 | 5,514 | 5,228 | 4,953 |
| 32,750 | 32,800 | 6,949 | 6,677 | 6,407 | 6,137 | 5,837 | 5,532 | 5,244 | 4,969 |
| 32,800 | 32,850 | 6,969 | 6,695 | 6,425 | 6,155 | 5,855 | 5,550 | 5,260 | 4,985 |
| 32,850 | 32,900 | 6,988 | 6,713 | 6,443 | 6,173 | 5,873 | 5,568 | 5,276 | 5,001 |
| 32,900 | 32,950 | 7,008 | 6,731 | 6,461 | 6,191 | 5,891 | 5,586 | 5,292 | 5,017 |
| 32,950 | 33,000 | 7,027 | 6,749 | 6,479 | 6,209 | 5,909 | 5,604 | 5,308 | 5,033 |
| 33,000 | 33,050 | 7,047 | 6,767 | 6,497 | 6,227 | 5,927 | 5,622 | 5,324 | 5,049 |
| 33,050 | 33,100 | 7,066 | 6,785 | 6,515 | 6,245 | 5,945 | 5,640 | 5,340 | 5,065 |
| 33,100 | 33,150 | 7,086 | 6,803 | 6,533 | 6,263 | 5,963 | 5,658 | 5,356 | 5,081 |
| 33,150 | 33,200 | 7,105 | 6,821 | 6,551 | 6,281 | 5,981 | 5,676 | 5,372 | 5,097 |

Continued next column

Continued on next page

**INDIVIDUAL PAYROLL RECORD**

EXEMPTIONS CLAIMED 2

M ☒ S ☐

YEAR 1977

RATE OF PAY 5.00

DATE EMPLOYED Jan 15, 73

DATE TERMINATED

EMPLOYEE'S NAME John Smith

ADDRESS 300 Main St.

SOCIAL SECURITY NUMBER 739 — 01 — [illegible]375

| | WEEK ENDING | TIME RECORD S | M | T | W | T | F | S | HOURS REG. | OV. | GROSS PAY | AMOUNTS DEDUCTED FROM EARNINGS SOCIAL SECURITY | FEDERAL W H TAX | STATE W H | TOTAL DEDUCTIONS | NET PAY | CHECK NUMBER |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| JANUARY | 8 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 167 |
| | 15 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 186 |
| | 22 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 299 |
| | 29 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 325 |
| JANUARY TOTALS | | | | | | | | | | | 800 - | 46 76 | 121 60 | 60 00 | 228 36 | 571 64 | |
| FEBRUARY | 5 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 360 |
| | 12 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 381 |
| | 19 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 398 |
| | 26 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 428 |
| FEBRUARY TOTALS | | | | | | | | | | | 800 - | 46 76 | 121 60 | 60 00 | 228 36 | 571 64 | |
| MARCH | 5 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 450 |
| | 12 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 471 |
| | 19 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 493 |
| | 26 | | 8 | 8 | 8 | 8 | 8 | | 40 | | 200 - | 11 69 | 30 40 | 15 00 | 57 09 | 142 91 | 502 |
| MARCH TOTALS | | | | | | | | | | | 800 - | 46 76 | 121 60 | 60 00 | 228 36 | 571 64 | |
| TOTALS FOR 1st QUARTER | | | | | | | | | | | 2400 - | 140 28 | 364 80 | 180 00 | 685 08 | 1714 92 | |
| APRIL | | | | | | | | | | | | | | | | | |
| APRIL TOTALS | | | | | | | | | | | | | | | | | |
| MAY | | | | | | | | | | | | | | | | | |
| MAY TOTALS | | | | | | | | | | | | | | | | | |
| JUNE | | | | | | | | | | | | | | | | | |
| JUNE TOTALS | | | | | | | | | | | | | | | | | |

H 225

247

248

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# INDIVIDUAL PAYROLL RECORD

EXEMPTIONS CLAIMED 1

DATE EMPLOYED 9-15-76

M ☐
S ☒

YEAR 1977

RATE OF PAY 3.00

DATE TERMINATED

EMPLOYEE'S NAME Bill Adams

ADDRESS 35 OAK St

SOCIAL SECURITY NUMBER 567 - 89 - 0123

| Month | Week Ending | S | M | T | W | T | F | S | Hours Reg | Hours OV | Gross Pay | Social Security | Federal W/H Tax | State W/H | Total Deductions | Net Pay | Check Number |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| JANUARY | 8 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 168 |
| | 15 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 187 |
| | 22 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 | 350 | 350 | 200 | 900 | 5100 | 300 |
| | 29 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | [illegible]0 - | 350 | 350 | 200 | 900 | 5100 | 326 |
| JANUARY TOTALS | | | | | | | | | | | 240 - | 1400 | 1400 | 300 | 3600 | 20400 | |
| FEBRUARY | 5 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 361 |
| | 12 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 382 |
| | 19 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 399 |
| | 26 | | 2 | 2 | 2 | 2 | 4 | 8 | 20 | | 60 - | 350 | 350 | 200 | 900 | 5100 | 429 |
| FEBRUARY TOTALS | | | | | | | | | | | 240 - | 1400 | 1400 | 800 | 3600 | 20400 | |
| MARCH | 5 | | 3 | 3 | 3 | 3 | 5 | 8 | 25 | | 75 - | 4.38 | 5.70 | 2.75 | 1283 | 6217 | 451 |
| | 12 | | 3 | 3 | 3 | 3 | 5 | 8 | 25 | | 75 - | 438 | 5.70 | 275 | 1283 | 6217 | 472 |
| | 19 | | 3 | 3 | 3 | 3 | 5 | 8 | 25 | | 75 - | 438 | 570 | 275 | 1283 | 6217 | 494 |
| | 26 | | 3 | 3 | 3 | 3 | 5 | 8 | 25 | | 75 - | 438 | 570 | 2.75 | 1283 | 6217 | 503 |
| MARCH TOTALS | | | | | | | | | | | 300 - | 17.52 | 2280 | 1100 | 51.32 | 248.68 | |
| TOTALS FOR 1st QUARTER | | | | | | | | | | | 780 - | 45.52 | 5080 | 2700 | 123.32 | 656.68 | |
| APRIL | | | | | | | | | | | | | | | | | |
| APRIL TOTALS | | | | | | | | | | | | | | | | | |
| MAY | | | | | | | | | | | | | | | | | |
| MAY TOTALS | | | | | | | | | | | | | | | | | |
| JUNE | | | | | | | | | | | | | | | | | |
| JU[illegible] TOTALS | | | | | | | | | | | | | | | | | |

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250

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# APPENDIX I

Form 941 is the Employer's Quarterly Federal Tax Return. It is used to report taxable income and tips and is the transmittal form to accompany payment of federal income taxes withheld from your employee's wages. The employee's share of Social Security (FICA) taxes withheld from wages plus the employer's share of FICA. Complete the form (Appendix J) using the data supplied in the employee wage record sheets (Appendix H) and the following general data:

Employer:
Fred A. Smith

Trade Name:
Fred's Auto Parts

Address:
101 Main st.
Anytown, WI 54101

Employers I.D. No.
8901234

Date:
On or before April 30, 1977

Form **941**
(Rev. Apr. 1977)
Department of the Treasury
Internal Revenue Service

# Employer's Quarterly Federal Tax Return

J

**Schedule A—Quarterly Report of Wages Taxable under the Federal Insurance Contributions Act—FOR SOCIAL SECURITY**

**List for each nonagricultural employee the WAGES taxable under the FICA which were paid during the quarter. If you pay an employee more than $16,500 in a calendar year, report only the first $16,500 of such wages. In the case of "Tip Income," see instructions on page 4. IF WAGES WERE NOT TAXABLE UNDER THE FICA, MAKE NO ENTRIES IN ITEMS 1 THROUGH 9 AND 14 THROUGH 18.**

**SSA Use Only**

|  |  |  |  |
|---|---|---|---|
| F ☐ | 2 ☐ | U ☐ | E ☐ |
| S ☐ | 1 ☐ | L ☐ | T ☐ |
| X ☐ | 0 ☐ | V ☐ | A ☐ |

1. Total pages of this return including this page and any pages of Form 941a ►
2. Total number of employees listed ►
3. (First quarter only) Number of employees (except household) employed in the pay period including March 12th ►

| 4. EMPLOYEE'S SOCIAL SECURITY NUMBER<br>000 00 0000 | 5. NAME OF EMPLOYEE (Please type or print) | 6. TAXABLE FICA WAGES Paid to Employee in Quarter (Before Deductions) Dollars Cents | 7. TAXABLE TIPS REPORTED (See page 4) Dollars Cents |
|---|---|---|---|
| 789-01-2345 | John Smith | 2400.00 | |
| 567-89-0123 | Bill Adams | 780.00 | |

If you need more space for listing employees, use Schedule A continuation sheets, Form 941a.

Totals for this page—Wage total in column 6 and tip total in column 7 ⟶ 3180.00

8. TOTAL WAGES TAXABLE UNDER FICA PAID DURING QUARTER. $ 3180.00
(Total of column 6 on this page and continuation sheets.) Enter here and in item 14 below.

9. TOTAL TAXABLE TIPS REPORTED UNDER FICA DURING QUARTER. $ 0
(Total of column 7 on this page and continuation sheets.) Enter here and in item 15 below. (If no tips reported, write "None.")

**Employer's name, address, employer identification number, and calendar quarter. (If not correct, please change)**

Name (as distinguished from trade name) Fred A. Smith
Date quarter ended Mar 31, 1977
Trade name, if any Fred's Auto Parts
Employer Identification No. 8901234
Address and ZIP code 100 Third St., Anytown, Wisc. 54101
Entries must be made both above and below this line; if address different from previous return, check here ☐

Name (as distinguished from trade name) Fred A. Smith
Date quarter ended Mar 31, 1977
Trade name, if any Fred's Auto Parts
Employer Identification No. 8901234
Address and ZIP code 100 Third St., Anytown, Wisc. 54101

| | |
|---|---|
| T | FP |
| FF | I |
| FD | TOT |

| | | |
|---|---|---|
| 10. Total Wages And Tips Subject to Withholding Plus Other Compensation ⟶ | 3180 | – |
| 11. Total Income Tax Withheld From Wages, Tips, Annuities, Gambling, etc. (See instructions) | 415 | 60 |
| 12. Adjustment For Preceding Quarters Of Calendar Year | | |
| 13. Adjusted Total Of Income Tax Withheld ⟶ | 415 | 60 |
| 14. Taxable FICA Wages Paid (Item 8) $ 3180.00 multiplied by 11.7% = TAX | 372 | 06 |
| 15. Taxable Tips Reported (Item 9) $ ........ multiplied by 5.85% = TAX | | |
| 16. Total FICA Taxes (Item 14 plus Item 15) ⟶ | 372 | 06 |
| 17. Adjustment (See instructions) | | |
| 18. Adjusted Total Of FICA Taxes ⟶ | 372 | 06 |
| 19. Total Taxes (Item 13 plus Item 18) | 787 | 66 |
| 20. TOTAL DEPOSITS FOR QUARTER (INCLUDING FINAL DEPOSIT MADE FOR QUARTER) AND OVERPAYMENT FROM PREVIOUS QUARTER LISTED IN SCHEDULE B (See instructions on page 4)<br>**Note:** If undeposited taxes at the end of the quarter are $200 or more, the full amount must be deposited with an authorized commercial bank or a Federal Reserve bank in accordance with instructions on the reverse of the Federal tax deposit form. This deposit must be entered in Schedule B and included in item 20. | 630 | 00 |
| 21. Undeposited Taxes Due (Item 19 Less Item 20—This Should Be Less Than $200). Pay To Internal Revenue Service And Enter Here ⟶ | 157 | 66 |

22. If Item 20 is More Than Item 19, Enter Excess Here ► $ And Check If You Want It ☐ Applied to Next Return, Or ☐ Refunded.

23. If not liable for returns in the future, write "FINAL" (See instructions) ► Date final wages paid ►

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Date Apr. 30, 1977 Signature Fred Smith Title (Owner, etc.) Owner

218-287-1

Form 941 (4-77)

## SCHEDULE B—RECORD OF FEDERAL TAX DEPOSITS

| Deposit period ending: | | | A. Tax liability for period | B. Amount deposited | C. Date of deposit |
|---|---|---|---|---|---|
| Overpayment from previous quarter | | | ▨ | | ▨ |
| First month of quarter | 1st through 7th day | | | | |
| | 8th through 15th day | | | | |
| | 16th through 22d day | | | | |
| | 23d through last day | | | 180.00 | 1-25-77 |
| 1 First month total | | 1 | | | |
| Second month of quarter | 1st through 7th day | | | | |
| | 8th through 15th day | | | | |
| | 16th through 22d day | | | | |
| | 23d through last day | | | 200.00 | 2-27-77 |
| 2 Second month total | | 2 | | | |
| Third month of quarter | 1st through 7th day | | | | |
| | 8th through 15th day | | | | |
| | 16th through 22d day | | | | |
| | 23d through last day | | | 250.00 | 3-29-77 |
| 3 Third month total | | 3 | | | |
| 4 Total for quarter (total of items 1, 2, and 3) | | | | 630.00 | ▨ |
| 5 Final deposit made for quarter. (Enter zero if the final deposit made for the quarter is included in item 4.) | | | | -0- | |
| 6 Total deposits for quarter (total of items 4 and 5)—enter here and in item 20, page 1 | | | | 630.00 | ▨ |

☆ U.S. GOVERNMENT PRINTING OFFICE : 1977—O-218-287

# APPENDIX K

## EVALUATION INSTRUMENT

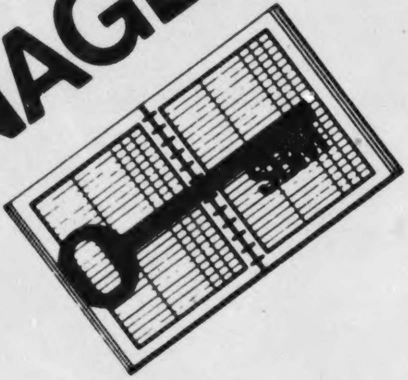
## TAXES AND DEPRECIATION

Name Key

Answer the following by circling "T" if the answer is true and "F" if the answer is false.

1. You should include your Social Security number with all correspondence about your Federal Income Tax. [✓ T] F
2. Property with a useful life of less than one year can usually be depreciated. T [✓ F]
3. If you use property for both business and personal uses you can only depreciate the portion of the property used for business. [✓ T] F
4. You may use any reasonable method to compute depreciation. [✓ T] F
5. Inventory at the end of the year would constitute your beginning inventory. [✓ T] F
6. You do not have to pay Social Security self-employment tax if you are over 65. T [✓ F]
7. If both you and your spouse are self-employed each of you must file a separate Schedule SE. [✓ T] F
8. There is no set rule for a sole proprietor to file a declaration of estimated income tax. T [✓ F]
9. Your declaration of estimated income tax doesn't have to be filed until July 1. T [✓ F]
10. To qualify for investment credit the property must be depreciable. [✓ T] F
11. Self-employment income is generally reported on Schedule C. [✓ T] F
12. You cannot subtract business losses from your income. T [✓ F]
13. If you are married filing a joint return you should itemize your deductions if they are more than $3,200. [✓ T] F
14. If you have five or less employees you do not have to file an Employer's Quarterly Federal Tax Return. T [✓ F]
15. There are penalties for filing a late Employer's Quarterly Federal Tax Return. [✓ T] F

# SMALL
# BUSINESS
# MANAGEMENT



## Going-Into-Business

## Module 11

# Insurance

For Adult and/or Post Secondary Instruction

## Module #11

## INSURANCE

### PART I. Introduction

Starting and operating a business involves many risks, some of which can be predicted with some degree of accuracy and others which are totally impossible to forsee. This module deals with the predictable risks for which insurance companies are willing to gamble. Students should be taught that money paid to insurance companies is not an unnecessary expense that they should pay begrudgingly but rather a necessary cost of doing business. A proper insurance program can provide peace of mind to the business owner and his/her family who know that their future is reasonably secure from the threat of most physical damages or catastrophic events that could destroy their business.

### PART II. Objectives (Behavioral)

A. Following a discussion of risk factors, students will be able to identify those risks which affect insurance premium rates.

B. Given a list of "essential coverages" the student will be able to demonstrate an understanding of why a business owner should have these types of insurance coverages.

C. After a discussion of "desirable coverages" the student will be able to explain how these policies might be useful in particular business situations.

D. Following a discussion of employee benefit insurance, the student will be able to explain how they can be used to attract better employees and reduce turnover.

### PART III. Transition of Modules

Module #10 covered the preparation of income tax forms and showed how the depreciation schedule is used to calcualte actual depreciation expense. This module deals with business insurance and shows how it can be used to offset the risks that face any business. The following module will deal with production control, inventory management and the role of management in controlling quality.

### PART IV. The Lesson

#### Attention Focuser

*Have your students list and discuss what they would consider necessary when planning an automobile trip from St. Paul, MN to Portland, OR. They will probably consider such items as money, food, lodging and fuel. These* *are important items when considering a trip, just as cash flow, business location, labor and inventory are important when operating a business. But the automobile trip can't begin until you have automobile insurance. A business must also meet it's insurance obligations before doing business.*

KEY QUESTION 1. Why should a small business owner be concerned about insurance?

A person who conducts a business is exposed to many risks such as loss of assets due to accidents or fires, injuries to customers or employees, automobile accidents, lawsuits if you fail to live up to contracts and literally hundreds of other ways that you can lose the investment you have built up in your business.

The theory of insurance is that large numbers of people pay in money, called premiums, to a fund so that when one person suffers a loss the fund reimburses that person to get back into business. Obviously, the more claims (requests for loss reimbursement) that the fund pays the more money it will have to collect to remain solvent. While the premiums may at times seem high, the real loser is the person who suffers a loss without any insurance to cover it.

There are many factors which affect the risk and therefore the rate (dollar amount of premiums) that you will be asked to pay. These might include:

1. Contruction materials and safety equipment used in your building.
2. Type of business activities you conduct and the materials or merchandise you use or store.
3. Location, are you near fire, police and medical facilities. Also, how close is your business to others that have higher risk factors.
4. Your own record of accidents and claims and actions you have taken to reduce the risks of your business.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Make sure that students understand the nature of risk. Ask them to list the types of risks faced by the following businesses:*

1. *A fireworks manufacturer*
2. *A movie theatre*
3. *A roofing contractor*

KEY QUESTION 2. What insurance coverage is required by law or considered essential for a person in business?

1. Social Security - The Federal Insurance Contributions Act (FICA) provides old age assistance payments plus income for widows and hospital coverage for the disabled. It is financed by payments withheld from workers salary and an equal contribution by the employer.

2. State Unemployment Insurance Fund - Pays benefits to those who are jobless but are able and available for work. Those who employ one or more workers for at least 20 weeks in a calendar year must pay in a percentage of the total payroll.

3. Federal Unemployment Insurance - Those who employ four or more workers during 20 or more weeks must contribute. State payments (above) are credited against the federal payment, thus only the differences need to be remitted.

4. Workers Compensation Insurance - Pays benefits when workers are injured or killed on the job. Insurance is sold by private companies but rates (based on different industry claim efficiencies) and payments are set by a state board.

5. Fire Insurance - Basic policies are standard throughout the country and cover damage due to fire, lightening and losses to goods temporarily moved from your premises because of a fire. Rates are set by state rating bureaus and based on type of contruction, type of work being done or materials being used, and whether your area has adequate fire protection, hydrants and alarm systems. Use of fire retardent building materials and sprinkler systems will lower your premiums considerably. You must insure at least 80% of the value of the building, merchandise, furniture and fixtures in order to obtain a full settlement in the event of a complete loss.

6. Liability Insurance - A business owner is subject to common law and statutory law regarding negligence to customers, employees and anyone with whom you do business. You are required to maintain a "safe place" of business. The courts, in recent years have become most liberal in personal injury settlements so that one judgement could easily wipe out the assets of an uninsured firm.

Depending on your type of business you might want to purchase an "umbrella policy" covering all of the following risks or individual policies:

a. Premises & Operations - If you own a store or factory, personal injuries to anyone on the premises will be covered by it.
b. Owners & Contractors Protective - If you are in the construction business or having a building built or remodeled, it would protect you against any personal injury claims.
c. Products & Completed Operations Coverage - It protects you if someone is injured by a product you manufactured or sold.
d. Contractual Liability - It protects you if you or one of your suppliers cannot complete a contractual obligation.
e. Medical Payments - It allows you to fulfill a moral obligation in case someone is injured on your premises even though you are not negligent.
f. Personal Injury Liability - Covers you in case you are sued for libel, slander, invasion of privacy, defamation of character, etc.

7. Automobile Insurance - If you or your employees drive your car or truck for business purposes, you should carry:

a. Bodily Injury Liability - To cover those in the other vehicle.
b. Property Damage Liability - To cover the other vehicle or building you might run into.
c. Medical Payments - Protects you and your family or guests if injured.
d. Uninsured Motorist Coverage - Covers medical expenses and bodily injuries if you are hit by an uninsured or hit-and-run vehicle.
e. Employer Nonownership - Protects you if one of your employees has an accident while using his/her, or a rented car to run errands or conduct company business.

NOTE: In no-fault insurance states coverages a-d may be combined and simplified.

## *Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix A, in transparency form to reinforce each topic by displaying the name of the insurance coverage as you discuss it.*

KEY QUESTION 3. What additional insurance coverage might be considered desirable for a business owner?

The following types of coverages will provide added peace of mind for the business owner?

1. Fire Insurance Extended Coverage - Expands the basic fire policy to cover windstorms, hail, riot, vehicle damage to a building, vandalism and malicious mischief.

2. Time Element Coverage - Pays you for lost income plus the added expense of getting back into business after a catastrophe.

    a. Business Interruption Insurance - Pays for lost income until you get back in business.
    b. Rents Insurance - Pays the landlord for lost rents until he can rebuild.
    c. Extra Expense - Some businesses can or are required to continue operating during a disaster, so the policy would pay the added expense of moving to a new location and subcontracting work in the interim period (examples - dairies, banks, newspapers, etc.)
    d. Accident & Sickness - Pays hospital cost plus lost income while you are hospitalized and convalescing.

3. Automobile Added Coverages

    a. Comprehensive Coverage - Broad coverage for fire, theft, flood or other damage to your car including glass breakage.
    b. Collision - Pays for damage to your car in the event of an accident. Usually subject to a deductible of $100 or $200.
    c. Creditor Life - A term life insurance policy to cover the unpaid balance of an auto loan in the event of your death. Note: a,b & c may be required by the lending institution if you borrow money to buy your car or truck.

   d. Towing and Labor - Pay to get your car started or tow it to the garage for repairs.

4. Storekeepers Burglary and Robbery Coverage Form - There are many types of coverages for losses other than by shoplifting or employee theft. Usually there must be evidence of a threat of bodily injury (use of a gun or knife) or forced entry (broken window or lock). This policy covers seven distinct losses:

   a. Robbery inside premises
   b. Robbery outside premises
   c. Kidnapping
   d. Burglary and safe burglary - money and securities
   e. Theft from night depository or residence
   f. Burglary, robbery of watchman - merchandise, furniture, fixtures, or equipment
   g. Damage

5. Fidelity Bonds - Protect employers against losses sustained as a result of dishonest or fraudulent acts of employees covered by the bond.

6. Boiler and Machinery - Covers direct damage to the heating plant if it blows up, other damage caused by the explosion, consequential damage (frozen pipes as a result of boiler being out) and use and occupancy payment if you are forced to move to other quarters. It usually requires an annual safety inspection of the equipment which in insured.

7. Glass Insurance - If you have large show windows or doors they can be insured. Premiums are based on the size and number of windows and their replacement cost.

8. Ocean and Inland Marine Insurance - Insures the shipment of raw materials and merchandise. Rates are based on the value of the cargo, the distance and the potential for losses.

9. Title Insurance - If you are buying real estate this specialized coverage will insure the proper legal work to secure a clear title.

10. Key Person Insurance - The death of one of your key employees can be a serious burden for most small

businesses. You can purchase life insurance on key employees payable to the company. The proceeds are tax free and may be used to offset lost income or to hire and train a new employee.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Use Appendix B, in transparency form to reinforce each insurance coverage by displaying the name as you discuss it.*

KEY QUESTION 4. What types of insurance can be used as employee benefits?

Small business owners can provide several types of insurance as employee benefits. Because these policies are sold as group coverages the premiums are usually lower due to sales and administration efficiencies. Some examples are:

1. Group Health Insurance - Policies are available to cover hospitalization for your employees and their dependents, major medical for large expenditures after a deductible amount has been paid and dental plans. Group plans provide more generous benefits than a person could purchase individually. Individual employees cannot be dropped from a group plan unless the entire group policy is cancelled.

2. Group Life Insurance - You can buy group life insurance to cover all your employees up to $50,000 and the premium cost is tax deductible to the business and yet the value of the benefit is not taxable income to your employees.

3. Disability Insurance - You can purchase low cost insurance to supplement Workers Compensation and cover employees for income loss because of disabilities not related to their work.

4. Retirement Income - As a business owner you can establish a retirement fund for yourself and your employees under the Keogh Act (1962). Premiums are paid in before income tax is paid so the tax is deferred until you reach the age of 62½ and start to draw out the money. Because the Keogh Plan requires you to treat all employees equally many businesses prefer to use a similar plan called Individual Retirement Accounts (IRA) which allows you to be selective as to whom you wish to have participate in your program.

*Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. Use Appendix C, in transparency form to reinforce each topic as you cover it. An important concept to get across is that while employee benefits are optional items for the small business owner they are a method of competing with larger companies that offer more employee security. The cost of these plans might even be less than the added salary it might require to attract good workers. Any plan that will keep employees satisfied must be looked at in terms of production or sales, employee continuity and less hassel with hiring and training.*

PART V. Summary

A. All businesses have numerous risks that they must contend with. Insurance companies are in the business of selling policies to cover certain predictable risks so that the business owner can ease the pain of a large loss by paying in a smaller loss (premium) on a regular basis.

B. Certain coverages are required by law or else regarded as essential for anyone who starts up a business.

C. In many cases the particular nature of a business will call for specialized insurance coverages which are regarded as desirable in terms of peace-of-mind for the owner.

D. Better employers can be kept longer through the effective use of insurance coverage as an employee benefit program.

PART VI. Unit Evaluation Instrument and/or Techniques

At the completion of the above module the instructor should distribute copies of Appendix D - Hilltop Nursery Inc. case and Appendix E - Student Response Sheet for completion in class. Allow time for a discussion of student responses. There are no "right" answers so students should benefit from a class discussion of how and why they answered each question as they did. Appendix F contains a professional insurance salespersons response to the Hilltop Nursery, Inc. case study.

PART VII. Transparency Masters and Other Teaching Support Material

Glossary of Terms
Appendix A - Key Question 2
Appendix B - Key Question 3
Appendix C - Key Question 4
Appendix D - The Insurance Strategy Problem, Hilltop Nursery, Inc.
Appendix E - Student Response Sheet, Hilltop Nursery, Inc.
Appendix F - Student Response Sheet Key

## GLOSSARY OF TERMS

Coverage - All the risk covered by an insurance policy.

Insurance - A contract guaranteeing compensation for losses that are stated in the insurance policy.

Premium - The amount of money paid for insurance coverage.

Risk - The chance of injury, damage, or loss to the business.

NOTE: There are numerous terms which are defined within the module.

# APPENDIX A

## KEY QUESTION 2. WHAT INSURANCE COVERAGE IS REQUIRED BY LAW OR CONSIDERED ESSENTIAL FOR A PERSON IN BUSINESS?

1. Social Security (FICA)
2. State Unemployment Insurance Fund
3. Federal Unemployment Insurance
4. Workers Compensation Insurance
5. Fire Insurance
6. Liability Insurance
7. Automobile Insurance

# APPENDIX B

KEY QUESTION 3. WHAT ADDITIONAL INSURANCE COVERAGE MIGHT BE CONSIDERED DESIRABLE FOR A BUSINESS OWNER?

1. FIRE INSURANCE EXTENDED COVERAGE
2. TIME ELEMENT COVERAGE
3. AUTOMOBILE ADDED COVERAGE
4. STOREKEEPERS BURGLARY AND ROBBERY COVERAGE FORM
5. FIDELITY BONDS
6. BOILER AND MACHINERY
7. GLASS INSURANCE
8. OCEAN AND INLAND MARINE INSURANCE
9. TITLE INSURANCE
10. KEY PERSON LIFE INSURANCE

# APPENDIX C

## KEY QUESTION 4. WHAT TYPES OF INSURANCE CAN BE USED AS EMPLOYEE BENEFITS?

1. GROUP HEALTH INSURANCE
    - A. SURGICAL MEDICAL PLAN
    - B. MAJOR MEDICAL
    - C. DENTAL PLAN

2. GROUP LIFE INSURANCE

3. DISABILITY INSURANCE

4. RETIREMENT INCOME
    - A. KEOGH PLAN
    - B. INDIVIDUAL RETIREMENT ACCOUNT

# APPENDIX D

## HILLTOP NURSERY INC.

Stan Nelson has been operating a nursery and garden center for about five years. He recently expanded the business to include treatment of dutch elm and other tree deseases. As the business grew he became concerned about legal liability and about a year ago incorporated the business. He feels that he has a good insurance program but is concerned about the cost. He read in two separate sources that florists and nurseries have an average insurance expense of between .9 and 1.3 percent of sales.

Not counting his employers contribution of $3,377.00 he had a total insurance cost of $5,331.00 for last year which equaled 3.2% of his sales. His insurance costs were:

| | |
|---|---|
| Federal and State Unemployment | $ 280 |
| This is because he has only 4 full time employees and fills in with 15-20 college students during the busy spring season. | |
| Workers Compensation | $1,029 |
| Equals .025% of payroll. He has avoided getting into tree trimming because his rate would increase by about 10 times if his workers were climbing trees. | |
| Fire and Windstorm | $ 475 |
| This covers one glass and one plastic covered greenhouse plus the salesroom and storage sheds. This rate is fairly low because much of his inventory is growing outside, in the form of plants, trees and shrubs. | |
| Liability Insurance | $ 150 |
| Includes coverage for people on the premises, plus product and completed operations coverage, contractual liability and personal injury liability. | |
| Automobile Insurance | $ 806 |
| Covers trucks and equipment used in the business for bodily injury, property damage and medical payments plus collision on a new truck for which he borrowed money from the bank. | |

| | |
|---|---|
| Blue Cross<br>Covers the three single males and one female full time employees of the corporation. The summer help is not covered, however, the corporation has a policy of paying for x-rays and medical treatment for part-time workers injured on the job. | $2,591 |
| TOTAL | $5,331 |

# APPENDIX E

## STUDENT RESPONSE SHEET
## HILLTOP NURSERY INC.

Name ______________________

1. What are some of the risks in the nursery and tree treatment business that should be insured against? ______________________

2. Does Hilltop Nursery have adequate coverage in the "required and essential" category? ______________________

3. What types of coverage in the "desirable" category might be appropriate for Hilltop Nursery Inc.? ______________________

4. How could Hilltop increase its employee benefit program? ______________________

# APPENDIX F

## STUDENT RESPONSE SHEET
## HILLTOP NURSERY INC.

Name *Key**

1. What are some of the risks in the nursery and tree treatment business that should be insured against? *1. Bodily injury to customers; in the building and sales room and on the ground and parking lot. 2. Automatic liability; trucks on the highway. 3. Employers liability; for acts of employees.*

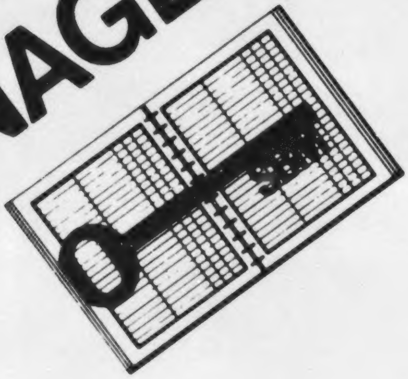
2. Does Hilltop Nursery have adequate coverage in the "required and essential" category? *Limits should be: 300,000/person or accident (bodily injury); 100,000 property damage; 500 medical payments per person/10,000 per accident. Should also have an umbrella liability coverage of up to $1 million Automobile limits; 240,000 per/person 500,000 per accident; 50-100,000 property damage; 2,000 medical payments. As a corporation they must look at the size of the equipment. For large trucks no med mpayments are necessary since injuries would be covered by Workmens Compensation. Should have 15,000/30,000 uninsured motorist. If they have $100 deductible - might go to $200 to $250 to reduce premiums. Comprehensive should be Actual Cash Value or with $50 deductible.*

3. What types of coverage in the "desirable" category might be appropriate for Hilltop Nursery Inc.? *Should also have business burglary and robbery coverage.*

4. How could Hilltop increase its employee benefit program? *As a corporation this is a family operation so benefit programs should be designed to serve the needs of the family first before covering the outside employees. Accident and sickness income disability coverage since this is a fairly hazardous business. Profit sharing and pensions to provide retirement benefits for employees.*

**A response from a professional insurance person.*

# SMALL BUSINESS MANAGEMENT



### Going-Into-Business

### Module 12

# Management Controls for Small Business

For Adult and/or Post Secondary Instruction

## Module #12

## MANAGEMENT CONTROLS FOR SMALL BUSINESS

### PART I. Introduction

One of the basic functions of managers of business, regardless of their size, is to exercise control through a process of setting goals or targets and then evaluating results and taking corrective action in those areas which are performing below expectations. For the small business owner elaborate systems are impractical, however, most soon realize that there are certain critical figures which should be recorded and evaluated (perhaps with simple graphs or charts) if for no other reason than to keep themselves out of trouble. These might include daily sales, accounts receivables, checking account balance, level of inventories and net profit. As the business grows these control systems must be expanded but the good operator will insure that the cost of developing and maintaining these systems never outweighs their need or usefulness.

### PART II. Objectives (Behavioral)

A. Following a discussion of control systems which are necessary for a small business, the student will be able to list and explain the management control systems discussed.

B. Given examples and an opportunity to discuss the control systems which are necessary for a small business the student will be able to identify management control systems which can be utilized to protect the assets of a business.

C. Given examples and an opportunity to discuss the control systems which are necessary for a small business the student will be able to identify management control systems which may be used to insure the efficient operation of a business.

D. Given examples and an opportunity to discuss the control systems which are necessary for a small business, the student will be able to identify management control systems used to insure profitability of a business.

### PART III. Transition of Modules

Module #11 provides a view of the insurance requirements for a small business. This module deals with the management controls that a business person uses to control his/her business. Module #13 will deal with employer-employee relations.

## PART IV. The Lesson

### Attention Focuser

*Have your students imagine that they are driving down a steep mountain. Now have them consider what would happen if the brakes failed. The brakes are a necessary control system for the safe operation of an automobile. A small business must also have various control systems built into its operation. The business will fail, just as the car is going to crash without brakes, without the use of control systems.*

KEY QUESTION 1. Why are control systems necessary for a small business?

A variety of control systems are necessary to:

1. Protect Business Assets - As your business prospers and grows you will be personally responsible for increasing amounts of cash, inventory, vehicles, buildings, supplies, and equipment belonging to you and your supplier, creditors and customers. It is foolish to think that you can keep everything in your head - especially when you start dealing with governmental agencies, banks, etc. that require exacting documentation of their transactions with you. You don't have to be a master statistician to be successful in business but you must be organized to the extent that you can keep track of what is going on and where everything is located. Keeping historic records may seem non-productive but the cost must be weighed against the value of the assets that you are trying to protect and the amount of potential danger to them.

2. Operate the Business Efficiently - Successful business management requires a constant awareness of what is going on in all phases of the business. Generally speaking you should be spending most of your time working on the most critical problems. This requires an efficient control system that lets you know where the problems are occurring and how much deviation there is from the normal situation.

3. Produce a Profit - Is the total business making a profit and are all its component parts contributing equally to the profit? In order to answer these questions you will need a control system that properly allocates all the expenses against the income sources of the business so

that you can tell which activities are most profitable. Only then can you start to make decisions about eliminating or changing the less profitable activities and promoting the more profitable ones.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Write each of the three points on the chalkboard as you discuss them.*

KEY QUESTION 2. What specific control systems might be utilized to protect the assets of a business?

There are numerous assets which need protection often by multiple systems. Some of these are:

1. Cash
    a. All cash including checks and credit card charge slips should be recorded either on a cash register that provides a printed daily total or on sequentially numbered sales slips. This provides the customer with a receipt and lets you know if your employees are dipping in the till.
    b. You should utilize a daily cash reconciliation worksheet on which to record all cash receipts and the cash register or sales slips totals. This amount should equal your daily bank deposit so that you can verify that all income was recorded in case you are audited by the IRS or State Tax Auditors.
    c. Do not accumulate cash in your cash register. If you handle large amounts of cash in your business you should have a private area for counting your money. You should make frequent trips to deposit the money in your bank if you do not have an adequate safe and burglar alarm system.
    d. Reconcile your checking account balance each month to assure that checks are not being altered or that phony checks are not being charged to your account. Keep your checkbook locked up at all times to prevent theft.

2. Accounts Receivable
    a. Maintain a file of accounts receivable cards with one card for each active account. All charge sales and amounts received on account should be posted daily so that you always have current balance due

showing on each card. Pull weekly and monthly totals to determine trends and age of accounts (amounts due over 30, 60 and 90 days).

b. Analyze your accounts receivables on a regular basis and write letters or make phone calls to accounts that are slow in paying.

3. Inventory of Merchandise for Sale or Raw Materials

a. Set up a perpetual system with a card for each item you have in storage. Record all sales and receipts on the card and enter the balance on hand after each transaction.

b. Take a physical count of your inventory at least once a year and post the actual amounts to the cards to determine the dollar value of inventory storages.

c. Place valuable inventory items in a safe or locked storage room and require that all items removed be recorded in a sign-out book.

d. If you deal in appliances, auto or other items with serial numbers keep an inventory file on cards by number so that you can then enter the name and address of purchasers. If your merchandise is stolen the serial numbers can be invaluable in getting the items recovered.

e. Analyze your inventory control cards to determine frequency of use or sales. This data is extremely valuable when it comes to reordering stock or buying new merchandise lines. Buy in amounts which will allow you to keep your stock moving, but set a minimum stock level for each item so that you reorder in time to get delivery before you run out of the item.

4. Physical Assets

a. Maintain a file of information on all buildings and building improvements, vehicles, furniture, office machines, machinery and tools that you expect to last more than one year. This data along with photos will help you in filing insurance claims, documenting tax losses or identifying the property if it is stolen.

b. Maintain a depreciation schedule listing all depreciable equipment and showing your method and amount of depreciation claimed for each year in the life of each item.

5. Customers Merchandise

   a. Make sure that all items are identified by a number tag attached to the article. Give the customer a numbered receipt on which is printed a statement of your legal limits of liability should the article be lost or destroyed.
   b. Keep a file by date on which completed work was promised. If the items are not picked up call or send a letter to remind the customer.
   c. Do not release merchandise unless you get the cash, a check or a signed promise to pay.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Use Appendix A, in transparency form, to point out the major headings as you discuss them. Make copies of Appendix B and C to distribute to the students as examples for class discussion when covering cash control systems and inventory control.*

KEY QUESTION 3. What control systems may be used to insure the efficient operation of a business?

Control over business operations may be exercised in the following areas:

1. Purchasing

   a. If possible buy from at least two suppliers to keep a check on prices. You will then have an established relationship in case one of your suppliers is affected by a strike, shortage of materials, fire, storm or any other calamity that could leave you sitting without merchandise for your customers if you only had one supplier.
   b. Keep your eyes open, talk to salespeople, read trade magazines, and visit trade shows to determine new products that you should be carrying and to see how marketing trends might affect your present business.

2. Make or Buy Decisions

   a. Continually evaluate your manufacturing or assembly areas to see if you could get the work done cheaper by buying the item without sacrificing quality or being subject to delivery problems.

3. Quality Control

   a. Spot check your merchandise to make sure it is up to your own quality standards with respect to the price.
   b. Keep an eye on your merchandise. If you spot slow moving items mark them down to get rid of them so you can keep faster moving items on your shelves.
   c. Survey your customers from time to time to determine if they are satisfied with your level of product quality and service.
   d. Evaluate warranty work to determine if your supplier is shipping in quality and to see if you are being compensated fairly for warranty work that you are required to do.
   e. Discuss merchandise returns with customers to determine the source of their discontent without embarrassing them for bringing the item back. You may be able to sell the customer something else, but more important your attitude may well determine whether the customer will want to do business with you in the future, or will tell all their friends not to do business with you.

4. Employee Morale

   a. Unhappy employees may convey their discontent to your customers. Keep an open channel of communication so that you are made aware of any problems which might reduce efficiency or cause employees to quit or sabotage your business. Also beware of your employees who are too satisfied, they may be ripping you off.

*Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. Have students list and explain different control systems which can be used in a business. Then summarize the control systems listed under Key Question 3.*

KEY QUESTION 4. How can controls be used to insure that your business is profitable?

The most important factor in insuring the survival of a business is to control the day-to-day profits by such controls as:

1. Financial Analysis

   a. Divide your business into logical profit centers if you are performing more than one function or selling multiple product lines. Establish a recordkeeping system that allows you to segregate your income and purchases and allocate your operating expenses to the various profit centers so that you can get a profit and loss statement for each. Do what you can to reduce costs and increase sales. Failing that, eliminate the unprofitable operations.
   b. Compare your operating costs and profits with other like businesses or industry averages to find areas for improvement.

2. Cost Controls

   a. Analyze your labor efficiency to see if your workers are performing up to their ability. Higher wages for more experienced workers should be reflected in more output or higher quality. Get rid of workers who do not meet production or sales quotas after a reasonable training period.
   b. Analyze your turnover costs. Does the hiring and training cost more than higher wages that might be required to keep experienced employees on the job.
   c. Is your employees benefit program effective in keeping your employees happy or would they rather have more money and less in health coverage, life insurance or profit sharing?
   d. Look for ways to cut frills out of your business without lowering customer satisfaction. Get to know your customers and determine what they really expect from you and how much they are willing to pay.
   e. Continually scrutinize your operating expenses to find ways of reducing costs through more efficient tools, methods or materials.

3. Sales

   a. Set sales quotas for your sales people and keep track of their production. Experiment with commissions, prizes, bonuses and other incentive schemes to find out what really motivates your people to perform up to their full potential.

   b. Record sales by brand name or style number to try and predict changes in consumer demand especially in "fad" items.
   c. Check the affect of seasonal variation on your sales and examine ways of smoothing out your sales to achieve better utilization of your facilities throughout the year.
   d. Determine if there is any way to learn what affect your advertising program has on sales. Do your customers respond to coupons, direct mail specials or do they seem to ignore your ads. Don't quit advertising, learn how to use it correctly and efficiently for your particular business.

4. Pricing

   a. Be sure that your prices are set high enough to provide enough gross margin to allow for a reasonable profit after your expenses are met.
   b. Make sure that your prices are in line with competition so that you do not lose sales on the one extreme or go broke on the other. Check your competition frequently and ask your customers if they are satisfied.
   c. Take advantage of your suppliers specials to pass the savings on to your customers as a way of building traffic in hopes of selling your regular merchandise at the full markup.
   d. Mark down end of season merchandise to get rid of it. You may be able to develop two different types of customers, those who are price conscious and willing to buy picked over merchandise at a reduced price. You may need both types of customers in your business. But if your sales becomes too popular you may discover that some of the people in your first group are shifting to the second group because they feel cheated when they pay full price.

*Suggested Teaching Strategy*

*Write Key Question 4 on the chalkboard. Use Appendix E to summarize the points as you discuss them. Appendix F is a case problem which may be used as an in-class activity. Divide the class into discussion groups of 4 to 6 students. Distribute the case problem and ask the groups to discuss it and make notes on their answers. Call the class together and have a spokesman for each group report on their findings.*

## PART V. Summary

This module was developed to acquaint students to the management controls which are necessary to operate a small business. These control systems are essential for: 1) Protecting business assets, 2) operate the business efficiently and 3) to produce a profit.

## PART VI. Evaluation Instruments and/or Techniques

Students should be given a handout of the Glossary of Terms prior to the instruction of this module with instructions to study the terms listed.

After the completion of the module the student will be able to:

1. List and explain management control systems.
2. Identify management control systems which can be utilized to protect the assets of a business.
3. Identify management control systems which may be used to insure the efficient operation of a business.
4. Identify management control systems used to insure profitability of a business.
5. Complete the Evaluation Instrument with 80% accuracy.

## EVALUATION INSTRUMENT

## MANAGEMENT CONTROLS FOR SMALL BUSINESS

Name ____________________

Answer the following questions by circling "T" for true or "F" for false.

1. Successful business management requires a control awareness of what is going on in all phases of the business. T F
2. To know the profitability of each component of a business you need to properly allocate expenses against each component. T F
3. You need not worry about a component of your business as long as the whole business is profitable. T F
4. A weekly check of cash and sales is satisfactory for most small businesses. T F
5. You need not worry about recording income except when you make a bank deposit. T F
6. You should post all charge sales daily. T F
7. You should take a physical inventory at least once a year. T F
8. Valuable inventory items should be placed in a safe or locked storage room T F
9. You should keep a record of serial numbers on sales items which have serial numbers. T F
10. You need not tag customer merchandise because the customer will recognize his/her item. T F
11. Do not release customer merchandise unless you get the cash, a check or a signed promise to pay. T F
12. You need only one supplier. T F
13. If you have a slow moving item you should keep it at the present price. T F
14. Unhappy employees may convey their discontent to your customers. T F
15. You need not be concerned about industry averages as related to profit. T F
16. You should set sales quotas for your sales people. T F

17. You should take advantage of suppliers specials to provide savings to your customers. T F

18. You should mark down seasonal merchandise to get rid of it. T F

19. You should quit advertising if your first attempts are unsuccessful. T F

20. If you have too many special sales you find customers unwilling to pay full price for merchandise. T F

# PART VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - Key Question 2
Appendix B - Cash Reconciliation Sheet
Appendix C - Inventory Control Cards
Appendix D - Key Question 3
Appendix E - Key Question 4
Appendix F - Case Study
Appendix G - Evaluation Instrument Key

## GLOSSARY OF TERMS

Accounts Receivable - The amount of money owed to a business for merchandise or services sold on short term credit.

Assets - Anything owned by an individual or a business which has commercial value or exchange value.

Creditors - One who is due money from another; your banker, suppliers, commercial credit agencies, etc.

Historic Records - Records retained over a period of years to show the development of a business.

Inventory - Assets of a business that may include merchandise for resale, raw materials, work-in-progress, finished goods or supplies not for resale.

Suppliers - Firms or individuals who provide merchandise services or raw materials necessary in the operation of a business.

# APPENDIX A

KEY QUESTION 2. WHAT SPECIFIC CONTROL SYSTEMS MIGHT BE UTILIZED TO PROTECT THE ASSETS OF A BUSINESS?

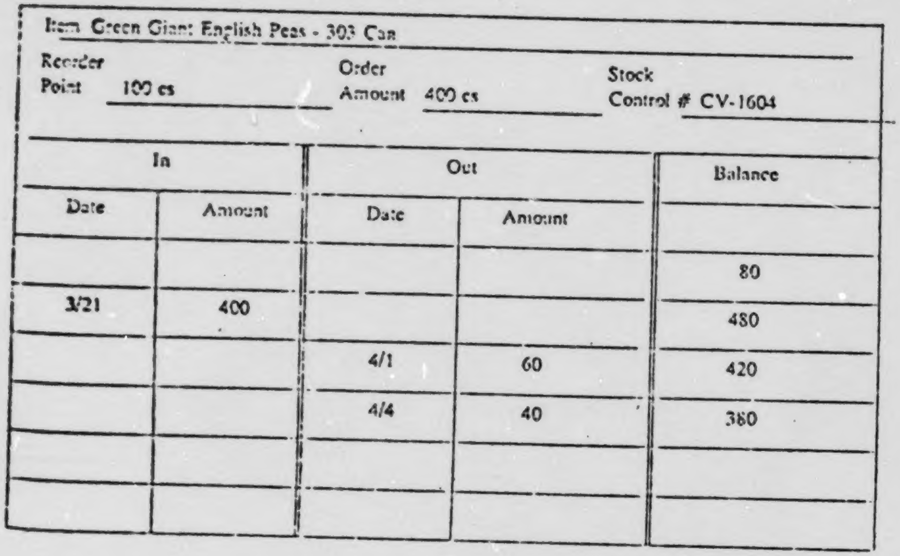
1. CASH
2. ACCOUNTS RECEIVABLE
3. INVENTORY OF MERCHANDISE FOR SALE OR RAW MATERIALS
4. PHYSICAL ASSETS
5. CUSTOMERS MERCHANDISE

# APPENDIX B

Date ____________________

Daily Deposit Reconciliation

| | | | |
|---|---|---|---|
| Pennies | ________ | | |
| Nickles | ________ | | |
| Dimes | ________ | | |
| Quarters | ________ | | |
| Halves | ________ | | |
| Bills | ________ | | |
| Checks | ________ | | |
| Charge Card Slips | ________ | | |
| 1. Total Cash in Drawer | ________ | | |
| 2. Less Cash Bank | ________ | | |
| 3. Bank Deposit (line 1 minus line 2) | | ________ | |
| Total Sales | ________ | | |
| Sales Tax Collected | ________ | | |
| Cash Received on Account | ________ | | |
| Other Cash Received | ________ | | |
| 4. Total Revenue | | ________ | |
| Less Deductions | | | |
| Credit Sales | ________ | | |
| Cash Paid Outs | ________ | | |
| Merchandise Returns or Allowances | ________ | | |
| 5. Total Deductions | | ________ | |
| 6. Cash Receipts after Deductions | | | ________ |
| 7. Cash Short (if line 6 is greater than line 3) | | | ________ |
| 8. Cash Over (if line 3 in greater than line 6) | | | ________ |



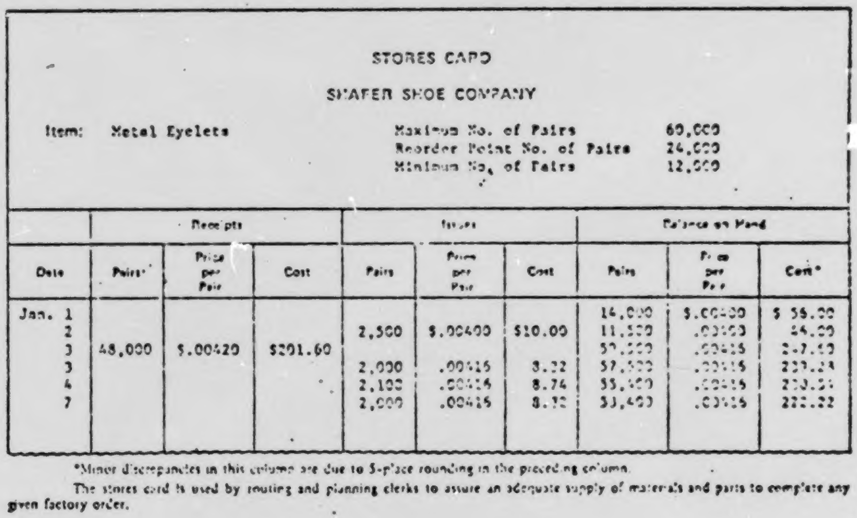
Item Green Giant English Peas - 303 Can

Reorder Point 100 cs

Order Amount 400 cs

Stock Control # CV-1604

| In | | Out | | Balance |
|---|---|---|---|---|
| Date | Amount | Date | Amount | |
| | | | | 80 |
| 3/21 | 400 | | | 480 |
| | | 4/1 | 60 | 420 |
| | | 4/4 | 40 | 380 |



STORES CARD

SHAFER SHOE COMPANY

Item: Metal Eyelets

Maximum No. of Pairs 60,000

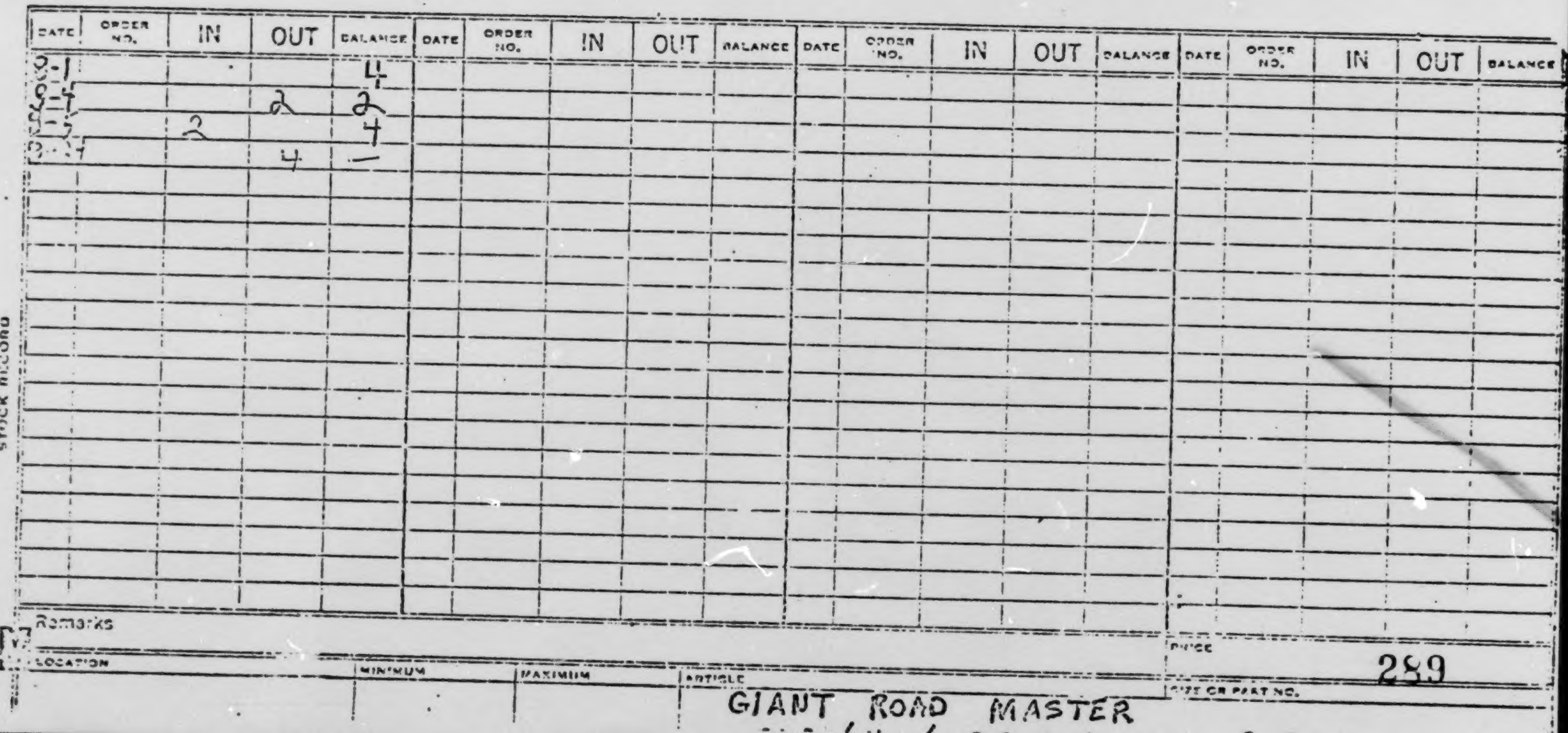
Reorder Point No. of Pairs 24,000

Minimum No. of Pairs 12,000

| | Receipts | | | Issues | | | Balance on Hand | | |
|---|---|---|---|---|---|---|---|---|---|
| Date | Pairs | Price per Pair | Cost | Pairs | Price per Pair | Cost | Pairs | Price per Pair | Cost* |
| Jan. 1 | | | | | | | 14,000 | $.00400 | $ 56.00 |
| 2 | | | | 2,500 | $.00400 | $10.00 | 11,500 | .00400 | 46.00 |
| 3 | 48,000 | $.00420 | $201.60 | | | | 59,500 | .00415 | 247.60 |
| 3 | | | | 2,000 | .00416 | 8.32 | 57,500 | .00415 | 239.28 |
| 4 | | | | 2,100 | .00416 | 8.74 | 55,400 | .00415 | 230.54 |
| 7 | | | | 2,000 | .00416 | 8.32 | 53,400 | .00415 | 222.22 |

*Minor discrepancies in this column are due to 5-place rounding in the preceding column.

The stores card is used by routing and planning clerks to assure an adequate supply of materials and parts to complete any given factory order.



A BRONUH & PLAKE PRODUCT
FORM V450
STOCK RECORD

| DATE | ORDER NO. | IN | OUT | BALANCE | DATE | ORDER NO. | IN | OUT | BALANCE | DATE | ORDER NO. | IN | OUT | BALANCE | DATE | ORDER NO. | IN | OUT | BALANCE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9-1 | | | | 4 | | | | | | | | | | | | | | | |
| 9-4 | | | 2 | 2 | | | | | | | | | | | | | | | |
| 9-5 | | 2 | | 4 | | | | | | | | | | | | | | | |
| 9-7 | | | 4 | — | | | | | | | | | | | | | | | |

Remarks

LOCATION

MINIMUM

MAXIMUM

ARTICLE GIANT ROAD MASTER

PRICE

SIZE OR PART NO.

# APPENDIX D

KEY QUESTION 3. WHAT CONTROL SYSTEMS MAY BE USED TO INSURE THE EFFICIENT OPERATION OF A BUSINESS?

1. PURCHASING
2. MAKE-OR-BUY DECISIONS
3. QUALITY CONTROL
4. EMPLOYEE MORALE

# APPENDIX E

## KEY QUESTION 4. HOW CAN CONTROLS BE USED TO INSURE THAT YOUR BUSINESS IS PROFITABLE?

1. FINANCIAL ANALYSIS
2. COST CONTROLS
3. SALES
4. PRICING

# APPENDIX F

## CASE PROBLEM

Tom Johnson purchased a hardware store about six months ago. He has been curious because his profits have not been as high as the previous owner claims his were. Tom decided to check things out so he took a physical inventory and discovered a shortage of about $6,500. He feels that much of the loss is in auto accessories and small tools but isn't sure because he does not break sales out by department. Tom has two full time employees and a part-time high school student. He does all the ordering himself but relies on the part-time worker to check in the merchandise and apply the price to stickers. He often works the floor but seldom rings up the actual sales as one of the full time employees is always at the register.

Questions:

1. What are the possible explanations for the inventory shortage?
2. What can Tom do to discover where his merchandise is going?
3. What controls can Tom initiate to make sure that the losses do not continue?

# APPENDIX G

## EVALUATION INSTRUMENT

## MANAGEMENT CONTROLS FOR SMALL BUSINESS

Name Key

Answer the following questions by circling "T" for true or "F" for false.

1. Successful business management requires a control awareness of what is going on in all phases of the business. [✓ T] F

2. To know the profitability of each component of a business you need to properly allocate expenses against each component. [✓ T] F

3. You need not worry about a component of your business as long as the whole business is profitable. T [✓ F]

4. A weekly check of cash and sales is satisfactory for most small businesses. T [✓ F]

5. You need not worry about recording income except when you make a bank deposit. T [✓ F]

6. You should post all charge sales daily. [✓ T] F

7. You should take a physical inventory at least once a year. [✓ T] F

8. Valuable inventory items should be placed in a safe or locked storage room [✓ T] F

9. You should keep a record of serial numbers on sales items which have serial numbers. [✓ T] F

10. You need not tag customer merchandise because the customer will recognize his/her item. T [✓ F]

11. Do not release customer merchandise unless you get the cash, a check or a signed promise to pay. [✓ T] F

12. You need only one supplier. T [✓ F]

13. If you have a slow moving item you should keep it at the present price. T [✓ F]

14. Unhappy employees may convey their discontent to your customers. [✓ T] F

15. You need not be concerned about industry averages as related to profit. T [✓ F]

16. You should set sales quotas for your sales people. [✓ T] F

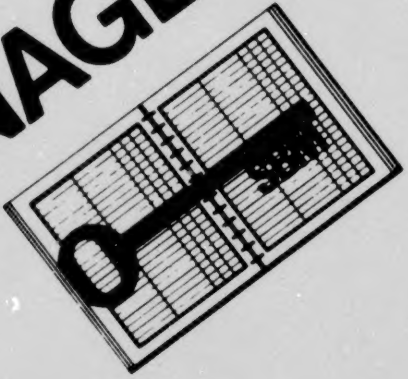
17. You should take advantage of suppliers specials to provide savings to your customers. [✓ T] F

18. You should mark down seasonal merchandise to get rid of it. [✓ T] F

19. You should quit advertising if your first attempts are unsuccessful. T [✓ F]

20. If you have too many special sales you find customers unwilling to pay full price for merchandise. [✓ T] F

# SMALL BUSINESS MANAGEMENT



Going-Into-Business

Module 13

## Employer-Employee Relations

For Adult and/or Post Secondary Instruction

# Module #13

## EMPLOYER-EMPLOYEE RELATIONS

### PART I. Introduction

Most small businesses start with the idea of an individual person. As the business starts to develop, the owner usually realizes a need to hire others to do some of the repetitive work. The secret to the successful growth of a business requires the ability to attract and keep the right people and the willingness to train them to do their jobs successfully.

### PART II. Objectives (Behavioral)

A. Following a discussion of the five major functions that the owner of a small business must perform in managing employees, the student should be able to list and define each of the five.

B. Following a discussion of the steps in the hiring process for new employees, the student should be able to identify several steps and place them in the proper sequence.

C. Following a discussion of the communication process in the management of personnel, the student should be able to identify several types of information which are critical to the operation of a business.

D. After a discussion of five types of training programs, the student should be able to tell what types are appropriate to meet specific needs within a business.

### PART III. Transition of Modules

Most of the previous modules have dealt with accounting and analysis. While it is true that record keeping and controls are important to keep the business operating efficiently, this module points out the important role of effective human relations. The small business owner, whether dealing with customers, suppliers, employees or creditors is really in the people business. Success depends on how well you can get others to do what will satisfy their needs while adding to your long run profits.

### PART IV. The Lesson

*Attention Focuser*

*The "Mutual Objectives" transparency,* Appendix A, *depicting the old story about two stubborn mules should evoke some lively discussion.*

*Employers as well as employees need a keen appreciation for the pulling together aspect of mutual effort. Elicit examples of situations that may result in employer and employee pulling in different directions.*

KEY QUESTION 1. What is the role of a business owner as an employer?

When a business begins hiring employees, a new set of problems and opportunities confronts the business owner who has been use to working alone. This new role requires:

1. Planning - The owner must develop written plans based on realistic forecasts of what the business will do. This includes financial planning to make sure that additional goods and services can be sold and payrolls can be met until cash is received from the customers in sufficient amounts, to pay all the bills, including the additional payroll. The owner must also set objectives, develop procedures and establish a time schedule for getting things done.

2. Organizing - The business owner must design an organizational structure based on what has to be done and what skills are required to complete the work. This requires writing job descriptions and making decisions about how responsibilities will be delegated and who will have the authority to make decisions.

3. Leadership - Setting a good example is an important part of operating a business. The owner decides how much work will be done, at what level of quality and sets the moral tone for the business. Selecting people is where it starts, but the owner must be willing to develop the knowledge, skills and attitudes of the workers and provide continuing motivation.

4. Control - The owner must develop some system of measuring performance so that the results can be evaluated and corrective actions taken. Whether it be in the form of missed sales goals, customer complaints or other problems. The owner must be able to act quickly to size up the situation and set things right, if sale goals are missed, if customers complain or other problems occur.

5. Communication - The success of any business depends on the ability of the owner to transform ideas into action. This requires continuous communication between the owner and his/her customers, employees, suppliers, creditors,

competition and the general public. Learning to listen and sell are two important skills that must be mastered. Learning how to teach these skills to employees will insure the long term success of the business.

*Suggested Teaching Strategy*

*Write Key Question 1 on the chalkboard. Use Appendix B, in transparency form to reinforce the five main concepts as you discuss them. Ask students for examples of each one before going on to the next.*

KEY QUESTION 2. What steps must be taken to locate and hire good workers?

1. Analyze your business to determine what specific skills are required to achieve your goals. Could the duties be filled by reassigning present employees, hiring part-time help or working present employees overtime? Are the duties seasonal or have certain rushes or deadlines expected that would suggest using outside service firms or temporary help?

2. Write a job description. Spell out in detail duties of the new employees, the minimum skills required, education or experience desired, the range of salary or commission you are willing to pay, and how you will evaluate your employees.

3. Review the federal, state and local laws regarding employment practices such as minimum wage, minimum age, method of accounting for tax withholding, social security, etc. Most state laws prohibit pre-employment questions or specifications regarding the applicant's race, religious creed, color, national origin, age, sex, medical condition, marital status, physical handicap or other factors which might be considered discriminatory.

4. Advertise the position widely and as long as necessary to obtain a workable number of applicants. Ads should be descriptive enough that the qualified will know what they are applying for and the unqualified will not apply. Circulate copies of the job description to the state job service, employment agencies, high school or vocational school counselors, unions and community organizations. Check with ministers, social workers, Chamber of Commerce officials and other community leaders who might be aware of people looking for work.

5. Use application forms or resumes to screen the applicants and eliminate those who obviously do not meet your minimum standards. From the remaining applications, select those who appear best suited and make arrangements for interviews.

6. The interview should be conducted by the business owner. This is your opportunity to explain your busness and philosophy to determine which of the applicants best fits your business. Some hints:

    a. Plan your interview and make a checklist of items you wish to cover.
    b. Discuss previous job experiences.
    c. Determine reasons for leaving previous jobs.
    d. Determine if there are domestic situations which might affect the workers production.
    e. Listen carefully to speech, and observe dress and personal hygiene if these factors are essential to the job.
    f. Determine any physical disabilities or health problems which might require specialized training or equipment.

7. Test the applicants job skills such as typing, math calculations, mechanical or sales ability.

8. Check references to determine general character, reputation and personal habits. This is best done by phone or in person since many people are reluctant to put unfavorable information in writing. Personal friends are often unreliable sources of information. Your best bet is a former employer who will answer a question such as, "Would you hire this person back if he/she applied to you for a job?"

9. Select the applicant you feel could do the job best and make an offer on condition that the person pass a physical examination. If they accept, negotiate salary, starting date, probationary period, moving expenses, training programs or other details.

10. Discuss the medical report with the doctor and your insurance agent if any medical conditions exist which might adversely affect the applicants productivity.

11. Verify acceptance with your new employee and inform the unsuccessful applicants that you will retain their files for future reference.

*Suggested Teaching Strategy*

*Write Key Question 2 on the chalkboard. Handout the "Job Description" form, Appendix C and ask each student to complete the form for a job which they have held or are familiar with. Explain how the form can be used for writing ads, screening applicants and as an outline for the interview. Use Appendix D, in transparency form to reinforce the 11 steps as you discuss them.*

*A few help wanted ads have been clipped from a local newspaper and are included as Appendix E. Ask students to comment on how well the ads describe the job and the skills required, based on the points covered under steps 2 and 4 of this Key Question.*

KEY QUESTION 3. What types of information are exchanged between the business owner and his/her employees?

Communication is a two-way process through which the business owner manages the employees of a business. It can be done in formal meetings or through short face-to-face conversations. Written communications can be useful when specific numbers or technical data must be transferred, but the personal contact, including facial expressions, tone of voice and gestures are best for complete understanding. The listener can ask questions to clarify information and can respond on the spot.

The types of information that a business owner should give employees might include:

1. Sales or production quotas for a day, week, month, or other time period.
2. Quality standards - how the work will be done, what types of products will be sold, and what prices will be charged.
3. Hours to be worked, wages, fringe benefits and promotion posibilities.
4. Future plans for the business, its products and methods.
5. Thanks for a job well done, public recognition for service, acknowledgement of new ideas and encouragement for the future.
6. Your business philosophy and how you wish your business to be operated.

7. Your evaluation of their efforts, with suggestions for self-improvement programs.

Listening is the other half of communications. The owner must listen for:

1. Problems that arise in the sales or production areas.

2. Customer complaints.

3. Employee complaints about wages, working conditions or disputes with other employees.

4. Rumors that might affect employee morale or business.

5. Suggestions for improvements in operations, products, methods or morale.

6. Human relations breakdowns that disrupt normal business operation. (Human relations involves the two-way communication between management and employees. If hurt feelings due to lack of recognition, discrimination or insincerity, whether real or imagined, are not detected and dealt with, the results can be disasterous in terms of work slowdowns, employee turnover, theft or sabotage. The important thing to remember is that employees are human and entitled to concern and respect. Employee loyalty is one of the most important factors in the success of a business.)

## *Suggested Teaching Strategy*

*Write Key Question 3 on the chalkboard. After presenting the material ask a student to describe what it might be like in a work situation where there has been a breakdown in communications. You might point out the similarity of how a breakdown of communication in a marriage often results in divorce. Tell how communications are essential in setting and achieving goals.*

KEY QUESTION 4. What kinds of training should the small business owner provide for employees?

One of the secrets of retaining good employees is to provide for promotions within the organization. This can only be accomplished if you are willing to train your employees to handle greater responsibilities and to be more efficient in everything they do. Training is expensive, whether measured in the cost of lost time or tuition, however this cost can be made up by having more productive employees stay with you longer. Five types of training that might be considered are:

1. Basic Job Skills - Such as computing sales tax or wrapping a package. The training usually takes the show-and-tell format where you demonstrate the technique and then ask the employee to repeat the task.

2. Product Knowledge - Often you can rely on your suppliers to provide literature and training programs regarding the product, how it should be used and serviced. Make sure your employees study the product information and become familiar with the item. Ask your suppliers to conduct classes or arrange for your employees to visit "the factory" or trade shows.

3. Selling Techniques - Sales is a complex science dealing with the attitudes, knowledge and skills of the seller, and his/her ability to determine the needs and capacity of the buyer. Training may be accomplished by observing successful sales techniques on-the-job or through classroom training.

4. Preparation for Promotion - This can be a long and involved program of experience in many areas of the business to develop skills which may not have been considered necessary when the person was first hired. In small business the person being groomed for management is often a relative of the owner. This frequently causes discontent among experienced and perhaps more qualified employees. Formal education in accounting and supervisory skills through a vocational school or college could be a valuable plus in building self-confidence and stature as well as bringing new managemen concepts to the business.

*Suggested Teaching Strategy*

*Use Appendix F, in transparency form, to provide the outline for discussion of Key Question 4.*

KEY QUESTION 5. What human relations skills are essential in operating a successful business?

Most successful businesses start out as small operators that grow because of a good reputation or rapport that is built between the owner and his/her customers. This success may be based on some combination of feelings such as respect for competence or skills, appreciation for hard work and good service or just liking the business owner as an individual. Living in the community and participating in civic functions, attending church, supporting fund drives, helping with education and youth programs or just being a good neighbor and citizen will enhance the business owners reputation and help in establishing good friendly relations with potential customers.

A good reputation is one of the most important factors in attracting new customers and good human relations are important in turning new customers into repeat business. As the business grows however it is often necessary to hire clerks or service people to represent the owner in dealing with customers. It's impossible to hire people who have the same attitudes and human relations skills as the owner so it is important to provide training in the manner and attitudes with which customers will be treated. Some of the areas that should be discussed are:

1. Make the Customer Feel Important - The customer is king. Without the customer there is no business, no profits and no jobs. It is therefore up to each employee to do everything possible to make each customer feel important. This often requires playing second fiddle to the customer in order to build his/her self-esteem or sense of worth. Even if you don't think the customer is right you must still respect his/her as a human being and respect his/her feelings.

2. Cooperation and Teamwork - A successful business requires that all employees work together to satisfy the needs of the customer. This often requires extra effort and unselfishness. Often the rewards are not immediately apparent but the important thing is to develop a loyalty to the business.

3. Generosity - A generous and unselfish spirit can be an important asset to a business. The employee who is generous with time, effort, compliments, suggestions and good cheer can do much in creating good will for the business. The owner must set the proper tone by contributing time and money to worthy causes and investing in the development of employees.

4. Patience - This is the ability to take time being polite to a customer even without the prospect of a big sale or standing back and letting an employee learn even if they do make mistakes or not flying off the handle when things don't work out quite the

way you had hoped. Being a business owner and working with people on both sides of the sales counter can be terribly frustrating and calls for an extra measure of understanding.

5. Tact - Saying the right thing in the right way is often the key to achieving your goals with the cooperation rather than the antagonism of others. Learn to praise people in public and reprimand them in private. The real key though is honesty and openness in dealing with others and learning to treat them with the care and respect that you would expect if the positions were reversed.

6. Integrity - One of the most valuable parts of your reputation has to do with the sense of morality for which the business stands. Treat your employees honestly and let them know that you expect them to deal with your customers the same way. In addition you must go out of your way to deal honestly with your suppliers, competitors and other businesses in your community.

7. A Willingness to Grow - The growth of the business whether in profits or size requires a constant management of change. The owner as well as the employees must continue to grow personally and learn to adapt to the changing situation. This requires the business operator to be observant of change and learning how to capitalize on each new trend, fad or market shift.

*Suggested Teaching Strategy*

*Use Appendix G, in transparency form to provide the outline for discussion of this Key Question.*

## PART V. Summary

A. When a business grows to the point that employees are hired the owner is forced to assume an additional role, as the manger of employees.

B. Hiring and retaining good employees is essential to long run sucess of the business.

C. The free flow of information is essential to effective employer-employee relations.

D. Training is a never ending process that the owner must accept as a continuing responsibility.

E. Human relations refers to the skills essential to getting along with others. The business owner must teach these skills to the employees to ensure that customers are receiving the proper level of service.

## EVALUATION INSTRUMENT

## EMPLOYER-EMPLOYEE RELATIONS

Name ____________________

1. Five major functions that the owner of a small business must perform in managing employees are: (Circle the five correct items)

   Interviewing
   Planning
   Leadership
   Forecasting
   Banking
   Organizing
   Control
   Checking References
   Communications
   Training

2. Place the following steps of the hiring process in proper sequence by numbering them 1-7.

   _____ Advertise the position.
   _____ Select the applicant you feel could best do the job.
   _____ Analyze your business to see what skills are needed.
   _____ Check references.
   _____ Interview the best applicants.
   _____ Write a job description.
   _____ Use application forms to screen applicants.

3. Select the two specific activities that would be included in the five types of training programs. Place the numbers in the blanks.

   **Type of Training**

   _____ _____ Basic Job Skills
   _____ _____ Product Knowledge
   _____ _____ Selling Techniques
   _____ _____ Human Relations
   _____ _____ Preparation for Promotion

   **Specific Activity**

   1. Management experience
   2. How to compute sales tax
   3. How merchandise is used
   4. Determining customer needs
   5. How to get along with people
   6. How to wrap a package
   7. How to get a product serviced
   8. How to close the sale
   9. Dealing with personality conflict
   10. How to use the accounting system

## PART VII. Transparency Masters & Other Teaching Support Materials

Glossary of Terms
Appendix A - Mutual Objectives
Appendix B - Key Question 1
Appendix C - Job Description Form
Appendix D - Key Question 2
Appendix E - Help Wanted Adds
Appendix F - Key Question 4
Appendix G - Key Question 5
Appendix H - Evaluation Instrument Key

## GLOSSARY OF TERMS

Creditors - One who is due money from another; your banker, suppliers, commercial credit agency, etc.

Human Relations - The process of understanding other people to improve communications.

Interview - Usually a one-to-one visit between job applicant and employer to gain first hand information about the person and the job.

Probationary Period - A trial period of time (often six months) where the new employee must perform to the satisfaction of the employer before obtaining permanent status.

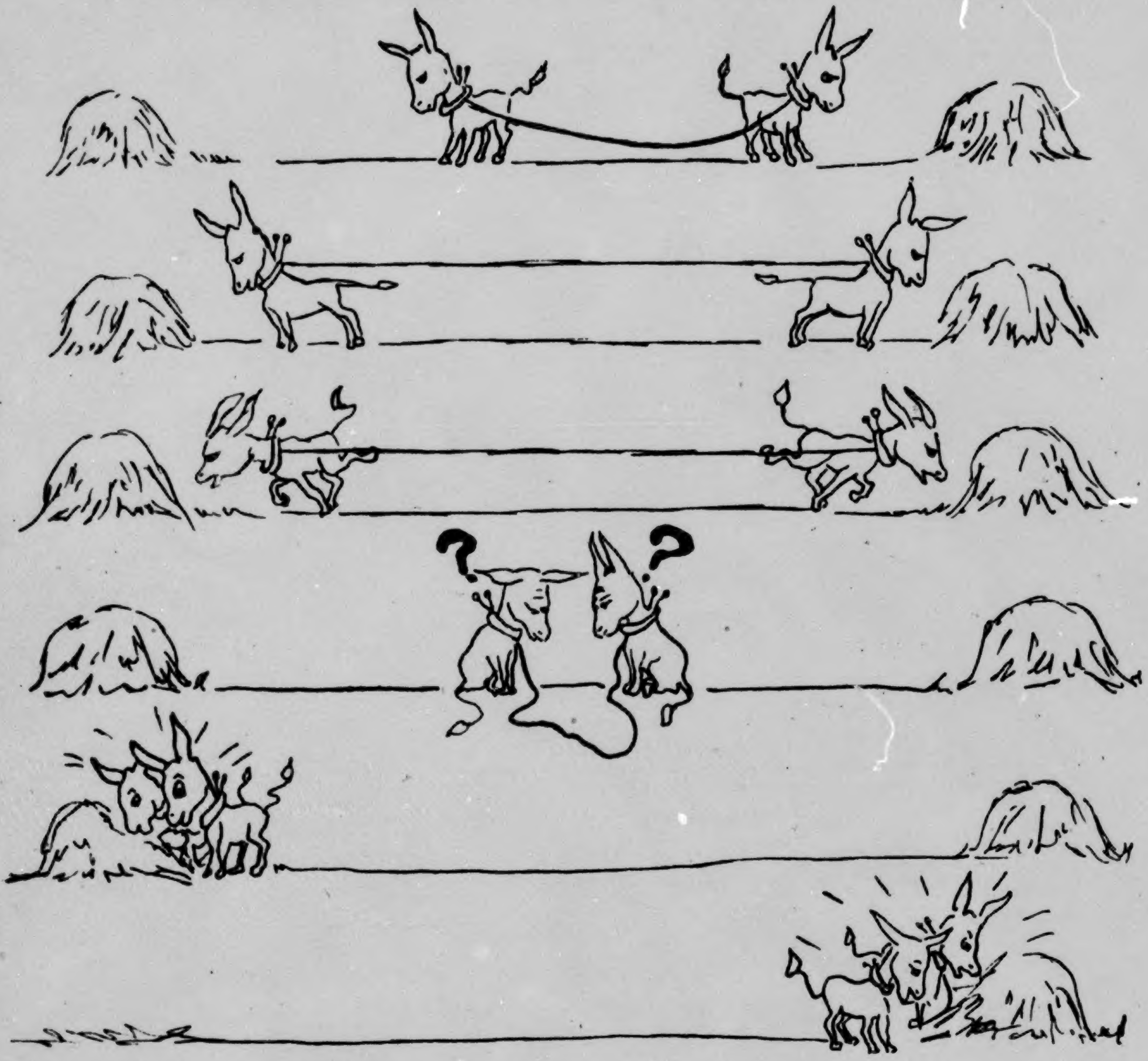
Resume - A job applicants listing of their background, jobs, experiences, training, etc.

Suppliers - Firms or individuals who supply goods and services necessary in the operation of a business.

Verify Acceptance - Applicant returns a signed contract agreeing to conditions of employment.

## APPENDIX A

# MUTUAL OBJECTIVES



# APPENDIX B

## KEY QUESTION 1. WHAT IS THE ROLE OF A BUSINESS OWNER WHO EMPLOYS WORKERS?

1. PLANNING
2. ORGANIZING
3. LEADERSHIP
4. CONTROL
5. COMMUNICATION

# APPENDIX C

# JOB DESCRIPTION

POSITION TITLE: ____________________

COMPANY NAME: ____________________

ADDRESS: ____________________

____________________, __________, ZIP __________

DESCRIPTION OF WORK PERFORMED:

SUMMARY OF DUTIES: ____________________

SPECIFIC DUTIES

| STEPS PERFORMED ON THE JOB | PERCENT OF TIME | EXACTLY HOW PERFORMED (INCLUDE SPECIAL SKILLS, TOOLS, JUDGEMENTS & DECISIONS NEEDED) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | 100% | |

SPECIAL PHYSICAL REQUIREMENTS: ____________________

EDUCATION OR EXPERIENCE REQUIRED: ____________________

SUPERVISORY RELATIONSHIPS:

REPORTS TO: ____________________

SUPERVISES: ____________________

SALARY RANGE:

BEGINNING: ____________________

AFTER ________ MONTHS ____________________

COMMISSIONS OR BONUSES: ____________________

METHOD OF EVALUATION: (TERMS OF PROBATIONARY PERIOD) ____________________

ADDITIONAL FACTS, COMMENTS OR REQUIREMENTS: ____________________

# APPENDIX D

## KEY QUESTION 2. WHAT STEPS MUST BE TAKEN TO LOCATE AND HIRE GOOD WORKERS?

1. ANALYZE BUSINESS TO DETERMINE SKILLS REQUIRED
2. WRITE A JOB DESCRIPTION
3. REVIEW EMPLOYMENT LAWS
4. ADVERTISE THE POSITION
5. SCREEN APPLICATION FORMS
6. INTERVIEW BEST APPLICANTS
7. TEST JOB SKILLS
8. CHECK REFERENCES
9. MAKE OFFER PENDING PHYSICAL EXAM
10. DISCUSS MEDICAL REPORT
11. VERIFY ACCEPTANCE WITH NEW EMPLOYEE

# APPENDIX E

## HELP WANTED ADDS

Full time alert telephone
receptionist-typist for
pleasant Mapleside Office.
332-4747

RECEPTIONIST-SECRETARY
Organized, personable individual needed for busy office. Salary depends on qualifications. Plenty of responsibility. Good benefits & raises. Prefer experience but not necessary. Call Mrs. Hale 456-1313. Equal Opportunity Employer.

PAYROLL CLERK
30 Hours Per Week
If you have high clerical accuracy & typing skills about 30 wpm you may qualify for this position in our personnel division. The payroll clerk figures time cards, posts salary & attendence data, distributes pay checks and has misc. other responsibilities. Hours: 8 hours days Mon thru Thurs: alternate week 4 hours Mon, Tues & Thurs am and 8 hours Wed & Friday. Starting salary $3.17 per hour for interview see Patti Holmes.

Johnson Electric
1910 Sudburg Ave.
Ft. Mills, N.D. 49210
An Equal Opportunity Employer

# APPENDIX F

KEY QUESTION 4. WHAT KINDS OF TRAINING SHOULD THE SMALL BUSINESS OWNER PROMOTE FOR EMPLOYEES?

1. BASIC JOB SKILLS
2. PRODUCT KNOWLEDGE
3. SELLING TECHNIQUES
4. HUMAN RELATIONS
5. PREPARATION FOR PROMOTION

# APPENDIX G

## KEY QUESTION 5. WHAT HUMAN RELATIONS SKILLS ARE ESSENTIAL IN OPERATING A SMALL BUSINESS?

1. MAKE THE CUSTOMER FEEL IMPORTANT
2. COOPERATION AND TEAMWORK
3. GENEROSITY
4. PATIENCE
5. TACT
6. INTEGRITY
7. A WILLINGNESS TO GROW

# APPENDIX H

## EVALUATION INSTRUMENT

## EMPLOYER-EMPLOYEE RELATIONS

Name Key

1. Five major functions that the owner of a small business must perform in managing employees are: (Circle the five correct items)

| | | |
|---|---|---|
| Interviewing | Forecasting | Checking References |
| [✓ Planning] | Banking | [✓ Communications] |
| [✓ Leadership] | [✓ Organizing] | Training |
| | [✓ Control] | |

2. Place the following steps of the hiring process in proper sequence by numbering them 1-7.

3 Advertise the position.

7 Select the applicant you feel could best do the job.

1 Analyze your business to see what skills are needed.

6 Check references.

5 Interview the best applicants.

2 Write a job description.

4 Use application forms to screen applicants.

3. Select the two specific activities that would be included in the five types of training programs. Place the numbers in the blanks.

| | | Type of Training |
|---|---|---|
| 2 | 6 | Basic Job Skills |
| 3 | 7 | Product Knowledge |
| 4 | 8 | Selling Techniques |
| 5 | 9 | Human Relations |
| 1 | 10 | Preparation for Promotion |

Specific Activity

1. Management experience
2. How to compute sales tax
3. How merchandise is used
4. Determining customer needs
5. How to get along with people
6. How to wrap a package
7. How to get a product serviced
8. How to close the sale
9. Dealing with personality conflict
10. How to use the accounting system

## Module #14

## BREAK-EVEN ANALYSIS

### PART I. Introduction

The "break-even" point in a business occurs when the sales volume equals fixed and variable expenses. Beyond the "break-even" point the business can expect to show a profit. Determining the "break-even" point will allow you to forecast profit for your business, determine pricing strategies and control expenses.

### PART II. Objectives (Behavorial)

A. Following a discussion of break-even analysis the student will be able to determine the relationship between fixed and variable cost as they relate to the "break-even" point.

B. Following a discussion of break-even analysis the student will be able to calculate the "break-even" point when given the fixed and variable cost for business.

C. Following a discussion of break-even analysis the student will be able to calculate the "break-even" point for a department.

### PART III. Transition of Modules

This module should be taught after the Employer-Employee Relations Module which point out the importance of human relations in a business. This module will cover "break-even" points in determining a profitable level of operation at the whole business and department levels.

The following module will use a comparative analysis format to look at expense factors in the business in an effort to use more effectively the existing business investment.

### PART IV. The Lesson

#### *Attention Focuser*

*Illustrate a high craggy mountain on the chalkboard. The peak or pinnacle represents the "break-even" point. Efforts to reach the pinnacle call for great courage and nothing is really accomplished in the eye of the climber until the peak is reached and the trip down has begun. This can be equated to a small business losing money until the "break-even" point is reached. Only after reaching the "break-even" point do profits begin to accrue.*

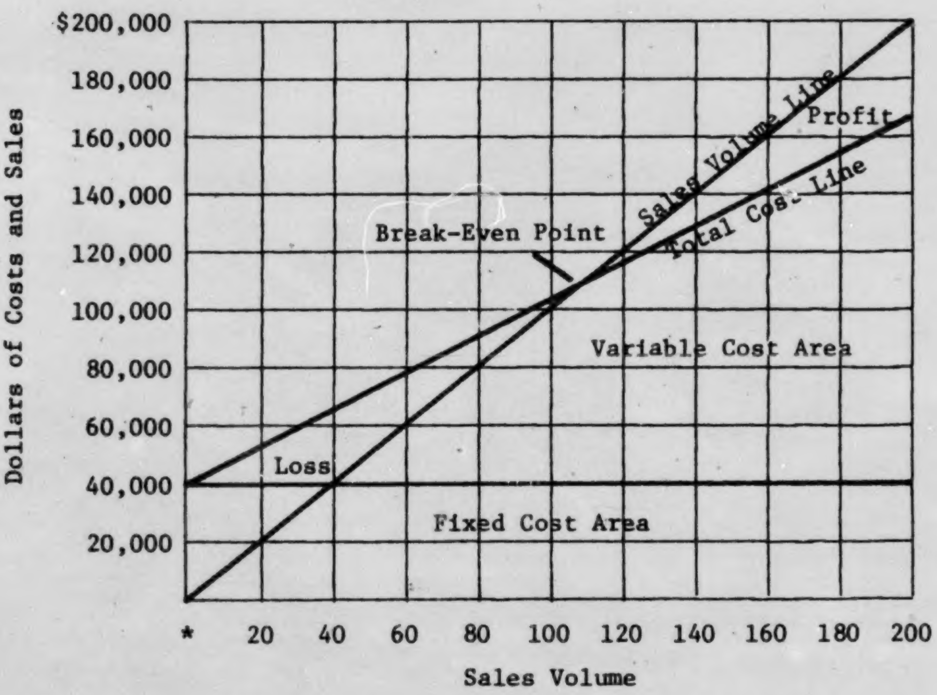
*The speed one takes to reach the peak is dependent upon how skillfully the path is chosen, to avoid the crags. Thus, the small business will* *reach the "break-even" point quick as expenses are eliminated or reduced.*

KEY QUESTION 1. What is the relationship of fixed and variable costs to total cost of running a business?

Fixed costs are those expenses which do not change as sales, service or manufacturing volumes increase. Fixed costs include such expenses as real estate tax, insurance, depreciation or rent. An example of fixed costs for your automobile could include any monthly payment, insurance and depreciation. Whether you drive 50 miles or 5,000 miles per month, these expenses remain the same.

The other expense involved in running a business is variable costs. Those are the costs that increase as the volume of business increases. In manufacturing the cost of labor and raw materials increase as the output is increased. The same would be true with a retail or service business. If we compare variable expense back to the car example we would put gasoline cost in the variable expense column. It would cost you more for gasoline to travel 50 miles as compared to traveling 5,000 miles.

Illustration of Fixed Variable Costs



* = Thousands

### *Suggested Teaching Strategy*

*Utilizing Appendix A, in transparency form, illustrate how the fixed cost remains constant regardless of sales volume. Appendix A also illustrates how variable costs are dependent on production. As sales volume increases so does variable cost.*

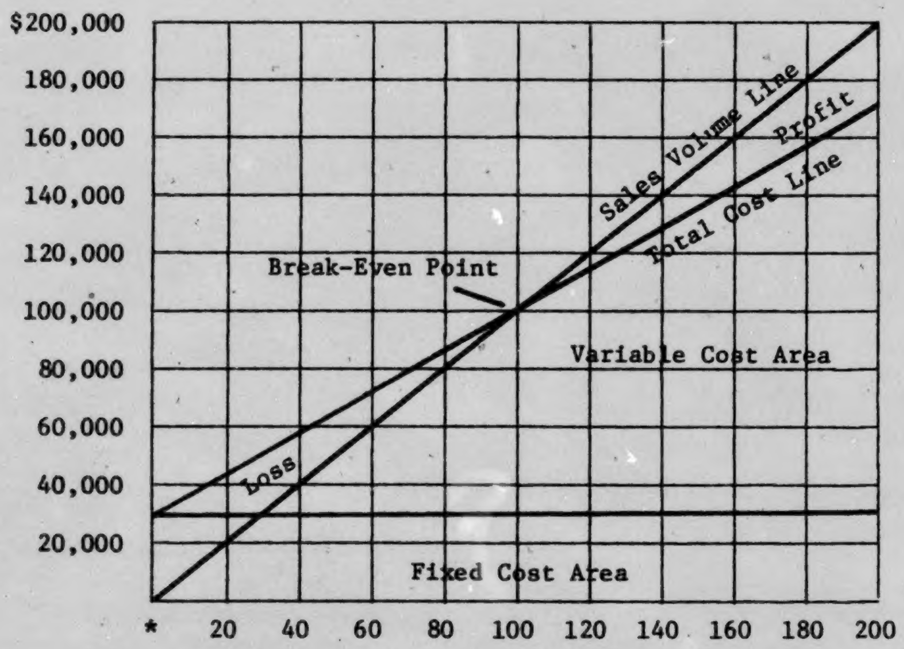
KEY QUESTION 2. How do you determine a "break-even" point in business?

The "break-even" point in your business occurs when the sales volume equals fixed and variable expenses. Beyond the "break-even" point you can expect to receive a profit.

Assume you have a business that has a:

| | |
|---|---|
| Sales Volume | $200,000 |
| Variable Costs | 140,000 |
| Fixed Cost | 30,000 |
| Net Profit | 30,000 |

If we draw a chart of this business we will find that the "break-even" point is at $100,000. That is the point on the chart where sales volume equals fixed and variable costs. At the "break-even" point there is a sales volume of $100,000. Fixed cost equals $30,000 and variable cost equals $70,000. Variable cost will continue to increase throughout the year but the business will continue to increase its profit as shown by the chart.



* = Thousands

You can also determine the "break-even" point for this business mathematically by using the following formula:

$$\frac{\text{Fixed Expense}}{\text{Unit Sales Price} - \text{Unit Variable Expense}} = \text{Units to be sold to reach the "break-even" point}$$

To utilize the business we have been working with, the formula would be computed: Fixed Expense = \$30,000, Unit Sale Price = \$1.00, Unit Variable = \$.70.

$$\frac{\$30{,}000}{\$1 - .70} = \frac{\$30{,}000}{.30} = 100{,}000 \text{ Units; } 100{,}000 \text{ Units} \times \$1.00 = \$100{,}000$$

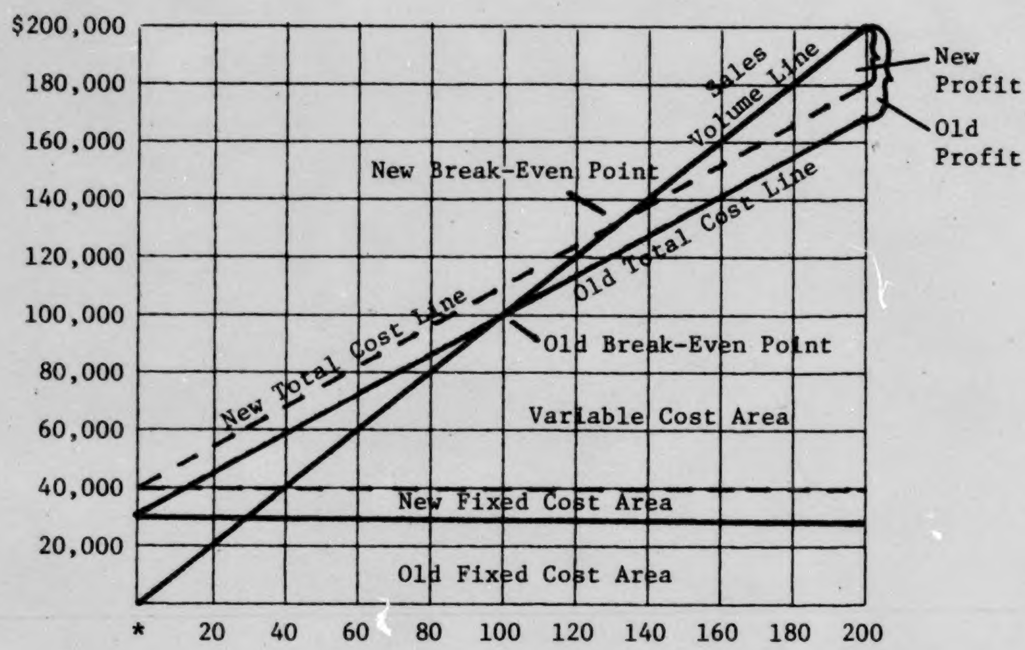
*Suggested Teaching Strategy*

*Utilize Appendix B, in transparency form, to illustrate the mix of sales, variable cost, fixed cost and profit or loss. It is important for each student to visualize the "break-even" concept. Spend several minutes with this illustration until everyone has a good grasp of the concept.*

KEY QUESTION 3. How does increasing fixed cost affect the "break-even" point and the profit percentage?

If you were to increase your fixed cost without a corresponding increase in sales volume your profit will decrease. This can be illustrated by charting a projected "break-even" point for the two sets of figures. Assume the following set of figures for determining a comparison of "break-even" points with an increase in fixed cost.

| | Old | % | New | % |
|---|---|---|---|---|
| Sales Volume | \$200,000 | 100 | \$200,000 | 100 |
| Variable Cost | 140,000 | 70 | 140,000 | 70 |
| Fixed Cost | 30,000 | 15 | 40,000 | 20 |
| Net Profit | 30,000 | 15 | 20,000 | 10 |

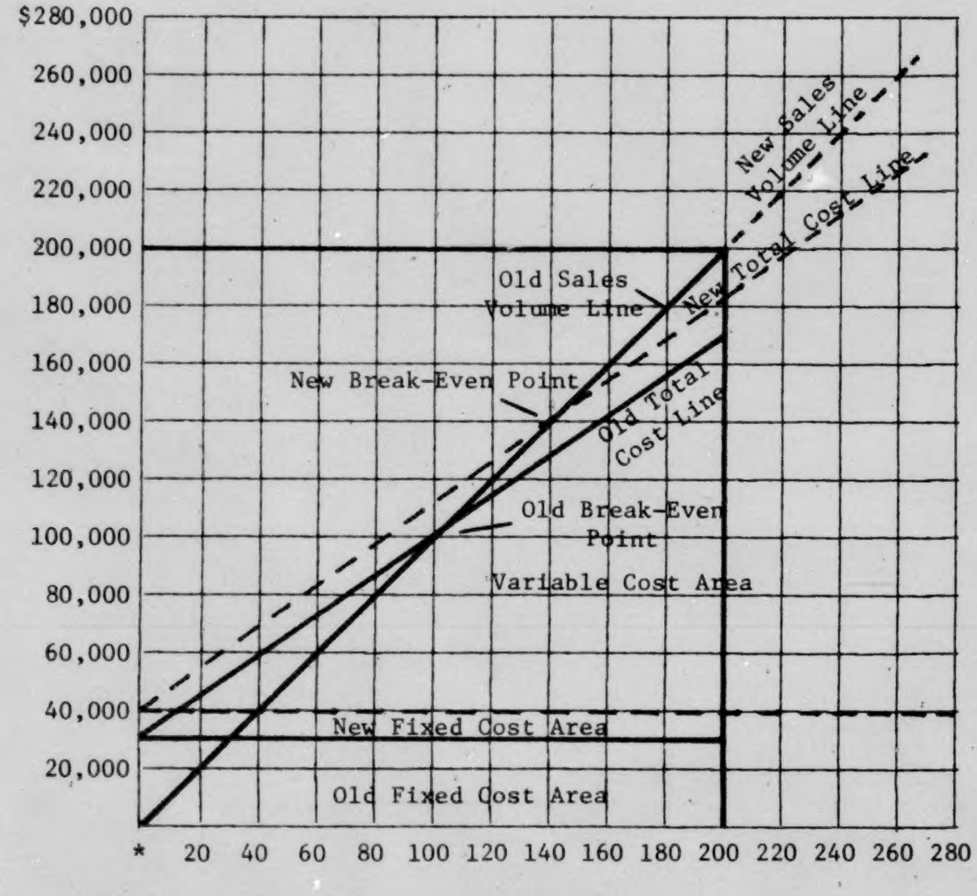


* = Thousand

The following chart illustrates how much the sales volume would have to increase to maintain a 15% net profit with an increase of $10,000 of fixed cost. Thus, the sales volume would have to increase from $200,000 to $266,700 to maintain the same net profit percentage.

To project the amount of sales volume needed to maintain a given profit percentage you would calculate the total sales volume by adding fixed cost, variable cost and profit.

| | Old | % | New | % |
|---|---|---|---|---|
| Sales Volume | $200,000 | 100 | $266,700 | 100 |
| Variable Costs | 140,000 | 70 | 186,690 | 70 |
| Fixed Costs | 30,000 | 15 | 40,000 | 15 |
| Net Profit | 30,000 | 15 | 40,010 | 15 |



* = Thousands

*Suggested Teaching Strategy*

*Utilize Appendix C, in transparency form, to illustrate how the "break-even" point increases as fixed cost increases. Point out that profit is reduced if sales are not increased.*

*This example assumes that variable costs do not change as fixed expenses increase. However, even if labor saving equipment is purchased which reduced labor costs, there maybe a partially off-setting equipment maintenance cost.*

*Appendix D, in transparency form, can be used to show how much of an increase in sales volume is required to maintain the orginial profit percentage.*

*An increase of $10,000 in fixed costs, assuming a constant variable cost percentage, requires an additional $66,700 in sales to maintain the original 15% profit figure.*

KEY QUESTION 4. How do you figure the "break-even" point for a department?

The "break-even" point for a department occurs when the sales volume equals fixed and variable expenses within the department. The "break-even" point for a department is figured the same way as for the whole business. Assume the business we have been working with has four departments.

Department A

| | |
|---|---|
| Sales Volume | $56,000 |
| Variable Cost | 45,000 |
| Fixed Cost | 2,000 |
| Net Profit | 9,000 |

Department B

| | |
|---|---|
| Sales Volume | $44,000 |
| Variable Cost | 20,000 |
| Fixed Cost | 9,000 |
| Net Profit | 15,000 |

Department C

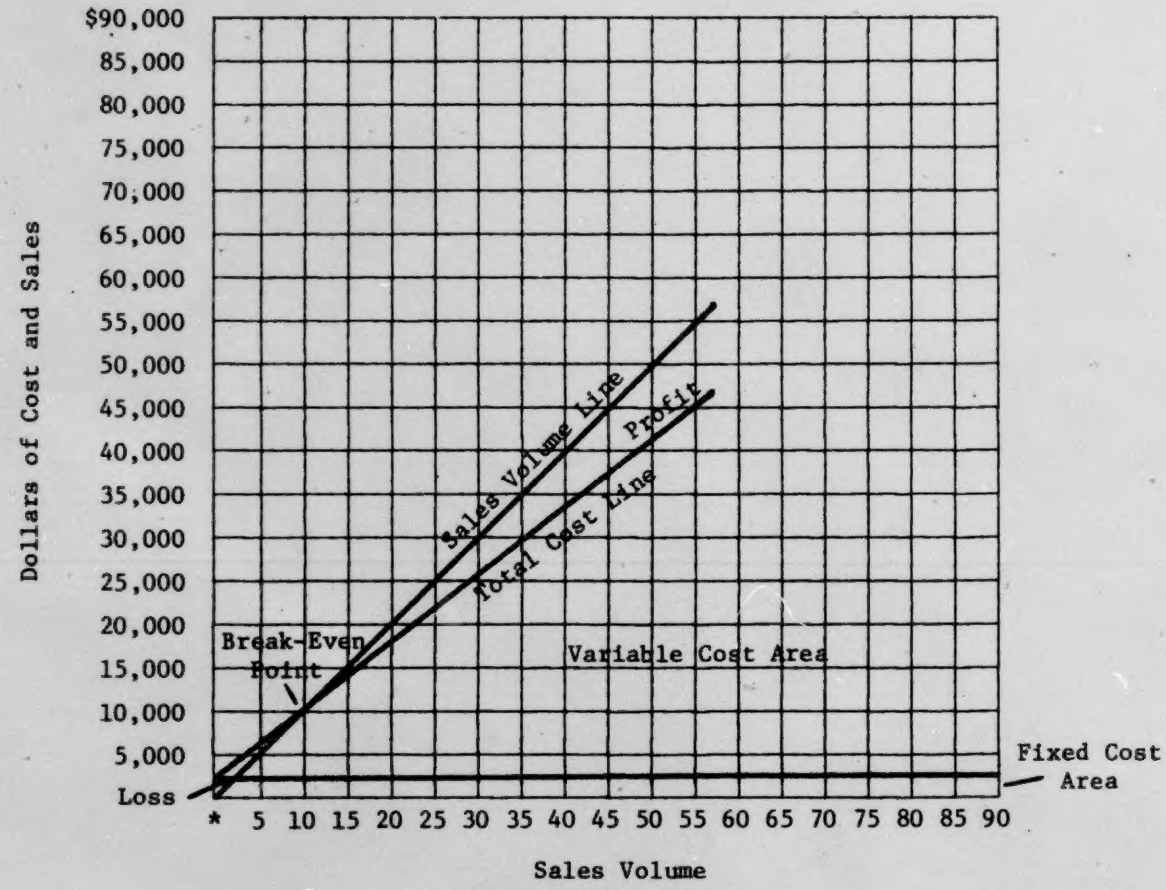
| | |
|---|---|
| Sales Volume | $85,000 |
| Variable Cost | 73,000 |
| Fixed Cost | 16,000 |
| Net Profit | -4,000 |

Department D

| | |
|---|---|
| Sales Volume | $15,000 |
| Variable Cost | 2,000 |
| Fixed Cost | 3,000 |
| Net Profit | 10,000 |

When the four departments are placed on "break-even" charts they would appear as follows:

Department A

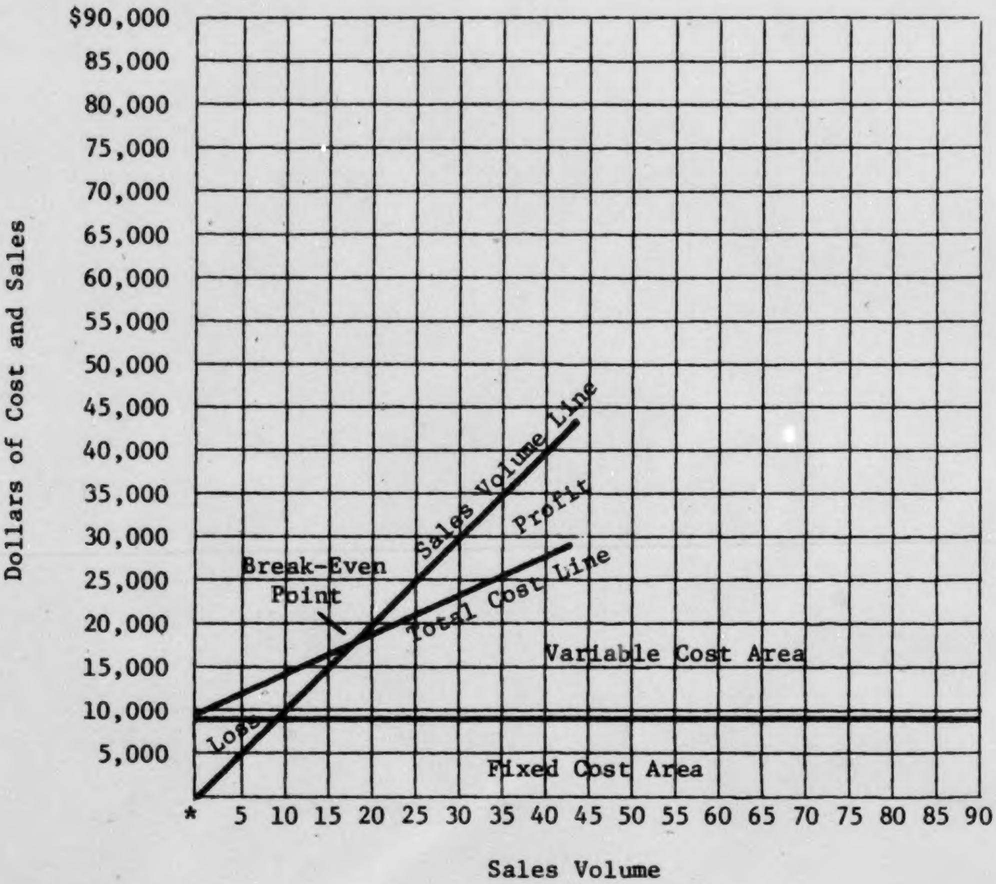


* = Thousands

| | |
|---|---|
| Sales Volume | $56,000 |
| Variable Costs | 45,000 |
| Fixed Costs | 2,000 |
| Net Profit | 9,000 |

The "break-even" point for Department A is $10,000. After the sales reach $10,000 this Department begins to return a profit.

Department B

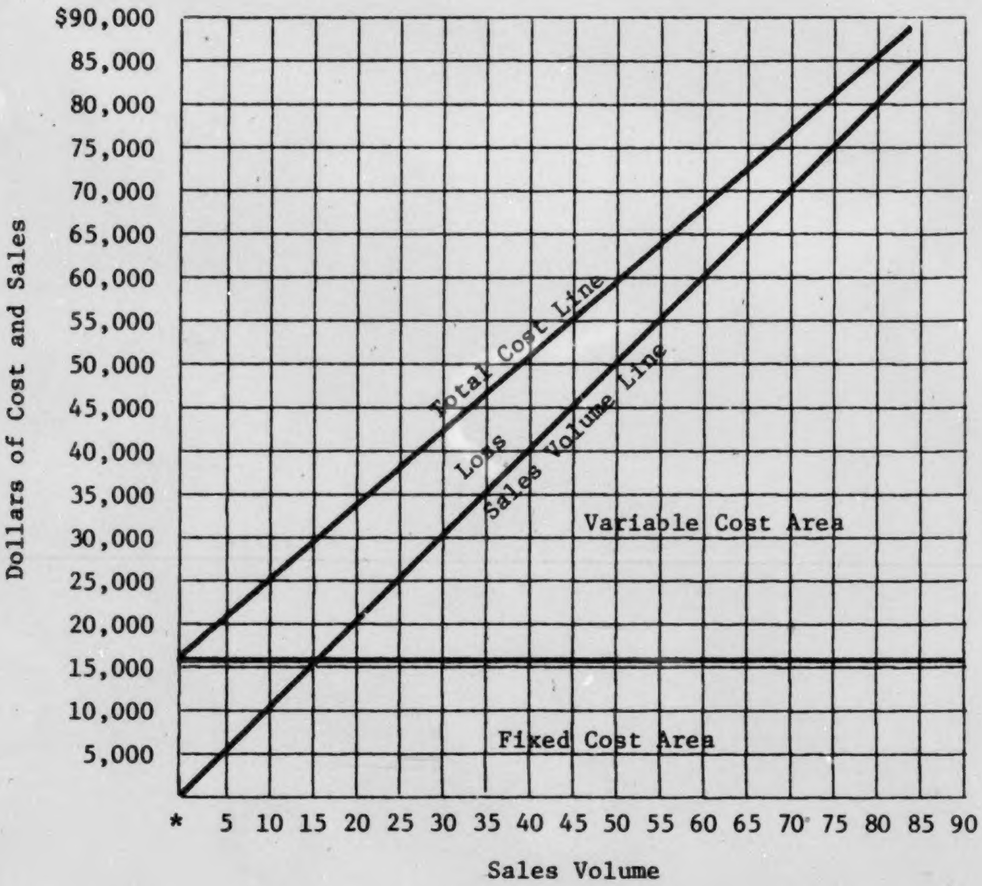


* = Thousands

| | |
|---|---|
| Sales Volume | $44,000 |
| Variable Costs | 20,000 |
| Fixed Costs | 9,000 |
| Net Profit | 15,000 |

The "break-even" point for Department B is $17,500. After the sales reach $17,500 this Department begins to return a profit.

Department C

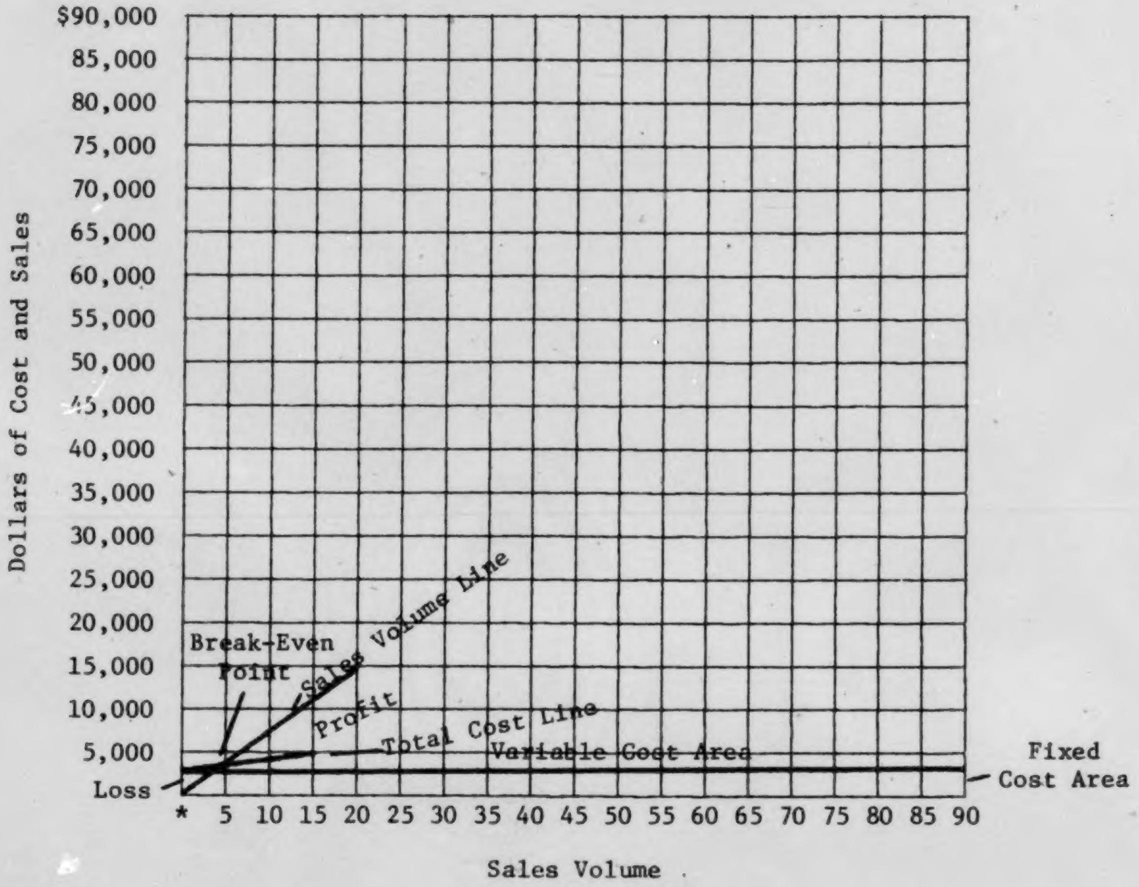


* = Thousands

| | |
|---|---|
| Sales Volume | $85,000 |
| Variable Costs | 73,000 |
| Fixed Costs | 16,000 |
| Net Profit | -4,000 |

Department C is in trouble. As you can see by the chart this Department does not provide a profit. In fact there is a net loss of $4,000. The business owner must now become aware of methods to improve this Department operation or possibly eliminate it altogether.

Department D



* = Thousands

| | |
|---|---|
| Sales Volume | $15,000 |
| Variable Costs | 2,000 |
| Fixed Costs | 3,000 |
| Net Profit | 10,000 |

Department D reaches the "break-even" point at $4,000. This Department is a very profitable operation providing the highest return on the dollars invested for its operation.

*Suggested Teaching Strategy*

*Utilizing Appendix E, F, G and H, in transparency form, to illustrate how the "break-even" point is charted for each department to represent the whole business. Appendix B, in transparency form, can be used to relate the departments back to the whole business.*

KEY QUESTION 5. How do you use the information gained by charting the "break-even" points for the different departments?

After you have determined the "break-even" points you can see which departments are most profitable. You will also be able to determine the percentages of the sales volume which make up the expenses in the different departments. At this point you might want to make decisions to keep, expand, modify or eliminate certain departments within the business.

The four departments we have been working with in this problem would break down as follows:

| | | % of Whole Business |
|---|---|---|
| Department A | | |
| Sales Volume | $56,000 | 28 |
| Variable Costs | 45,000 | 32.1 |
| Fixed Costs | 2,000 | 6.7 |
| Net Profit | 9,000 | 30 |
| Department B | | |
| Sales Volume | $44,000 | 22 |
| Variable Costs | 20,000 | 14.3 |
| Fixed Costs | 9,000 | 30 |
| Net Profit | 15,000 | 50 |
| Department C | | |
| Sales Volume | $85,000 | 42.5 |
| Variable Costs | 73,000 | 52.1 |
| Fixed Costs | 16,000 | 53.3 |
| Net Profit | -4,000 | -13.3 |
| Department C | | |
| Sales Volume | $15,000 | 7.5 |
| Variable Costs | 2,000 | 1.5 |
| Fixed Costs | 3,000 | 10.0 |
| Net Profit | 10,000 | 33.3 |

*Suggested Teaching Strategy*

*Utilizing Appendix I, in transparency form, show how each department relates to the business as a whole. At this point the business operator will have to make decisions about the business as it is broken down into departments. In the above example Department C is in trouble. Could there be some relationship between the loss in Department C and high profit in Department D? This and any other questions about the relationship between departments will have to be answered by the business operator at this time.*

PART V. Summary

A. A business owner must know the relationship between fixed and varible cost to the "break-even" point.

B. Determining the "break-even" point for a business is essential for planning the business.

C. The business owner can utilize the calculated "break-even" points to make decisions on business operations.

PART VI. Unit Evaluation Instruments and/or Techniques

Students should be given a handout of the Glossary of Terms prior to the instruction of this module with instructions to study the terms listed.

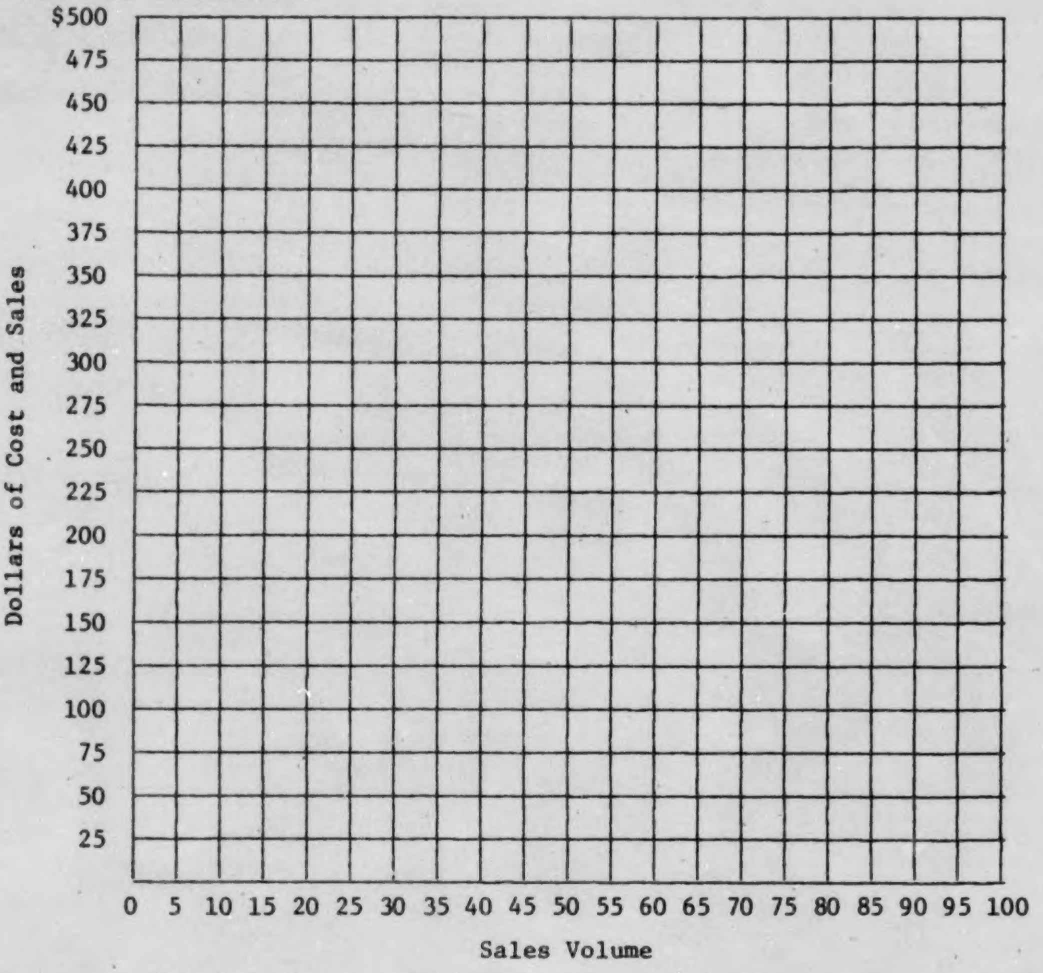
After completion of the module the student should be able to determine the "break-even" point both by mathematical calculation and charting.

## EVALUATION INSTRUMENT

## BREAK-EVEN ANALYSIS

Name ______________________

Use the information below to determine the break-even point by charting and mathematical calculation.



| | |
|---|---|
| Sales Volume | $500 |
| Fixed Cost | 175 |
| Variable Cost | 250 |
| Net Profit | 75 |

100 Units which are sold for $5 each.

The formula for determining the "break-even" point mathematically is:

$$\frac{\text{Fixed Expense}}{\text{Unit Sale Price}} - \text{Unit Variable} = \text{Units to be sold to reach the "break-even" point}$$

## PART VII. Transparency Masters and Other Teaching Support Materials

Glossary of Terms
Appendix A - Projected Break-Even Chart
Appendix B - Projected Break-Even Chart
Appendix C - Projected Break-Even Chart
Appendix D - Projected Break-Even Chart
Appendix E - Projected Break-Even Chart - Department A
Appendix F - Projected Break-Even Chart - Department B
Appendix G - Projected Break-Even Chart - Department C
Appendix H - Projected Break-Even Chart - Department D
Appendix I - Departments Compared to Whole Business
Appendix J - Evaluation Instrument Key

## GLOSSARY OF TERMS

Break-Even Point - The point where income just equals total costs, leaving no profit or loss.

Fixed Cost - Expenses which don't change as sales, service or manufacturing volume increases.

Net Loss - The sum remaining after fixed and variable costs are deducted from the income of a business, (if negative).

Net Profit - The sum remaining after fixed and variable costs are deducted from the income of a business, (if positive).

Sales Volume - The total amount of goods or services sold during a given period.

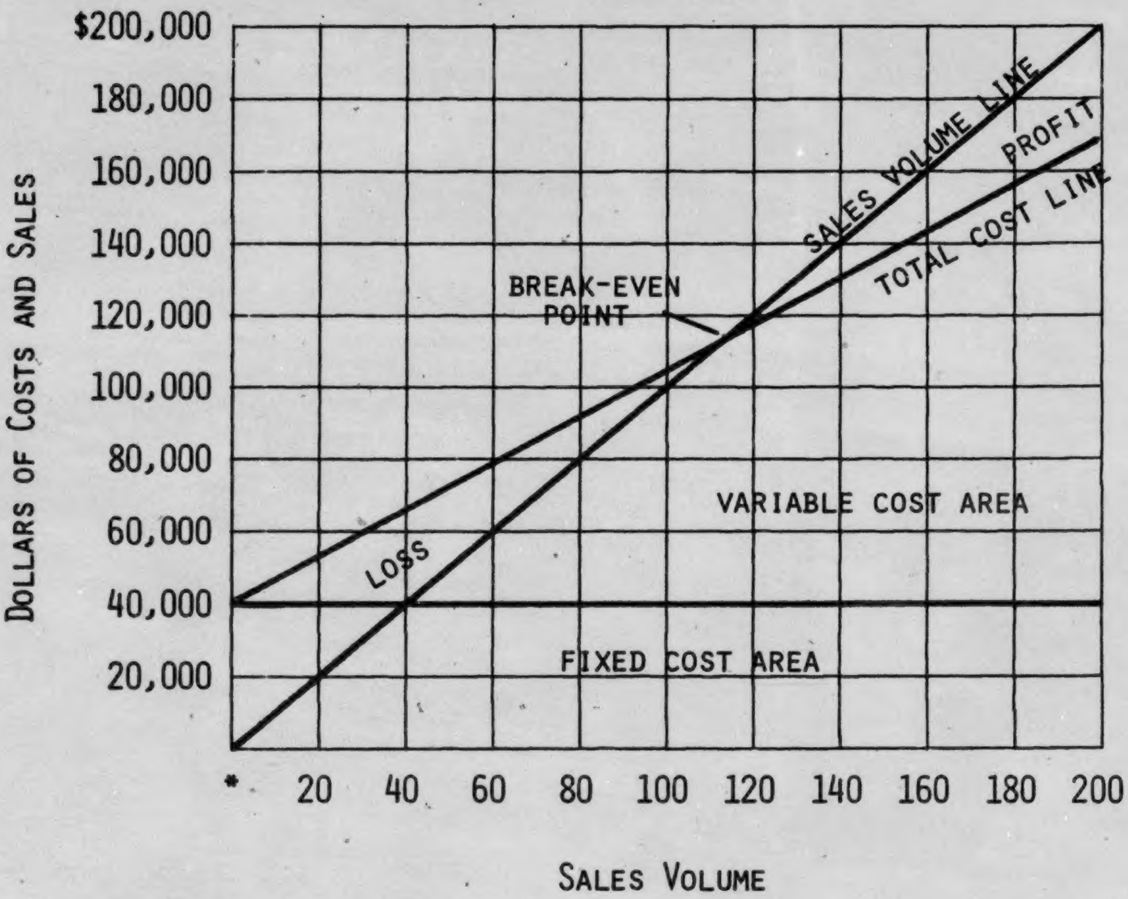
Unit Sales Price - The selling price per item sold.

Unit Variable Expense - The amount of variable expense attributed to each unit of goods or services sold.

Variable Cost - Expenses that increase as the volume of business increases.

# APPENDIX A

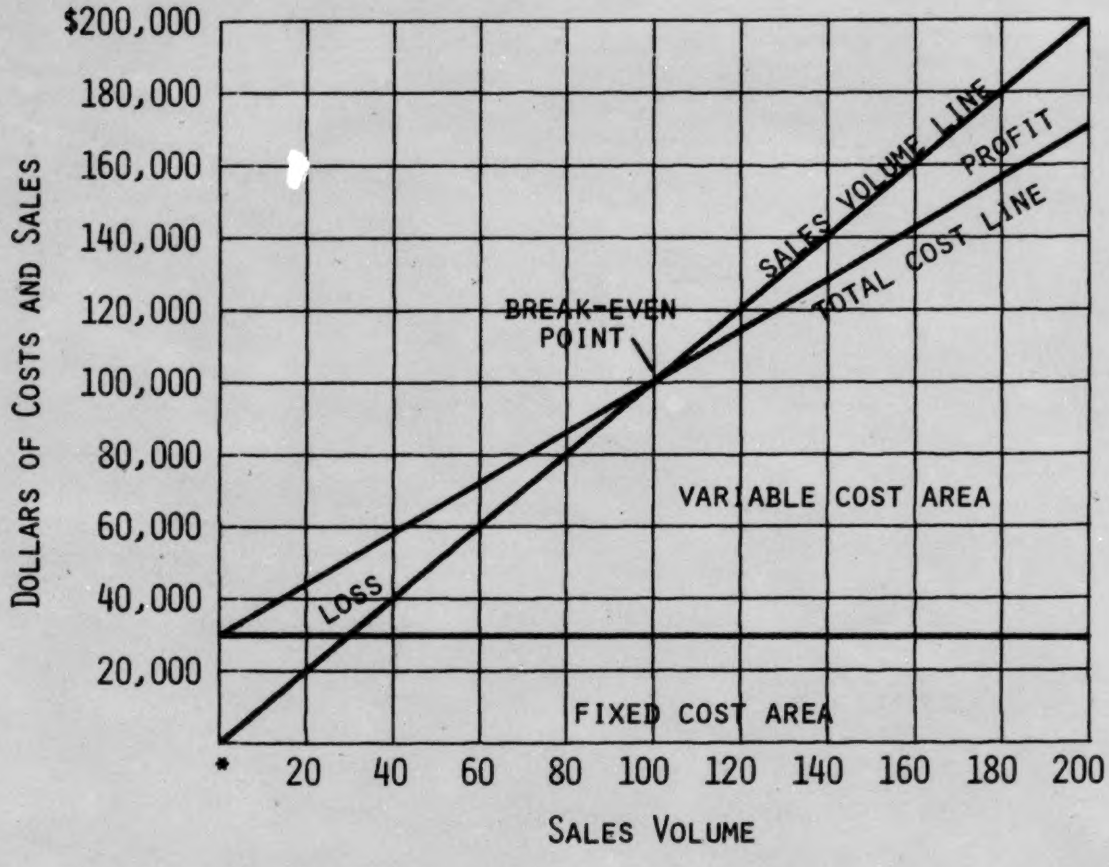
## PROJECTED BREAK-EVEN CHART
## YEAR ENDING DECEMBER 31, 19__



* = THOUSANDS

# APPENDIX B

## PROJECTED BREAK-EVEN CHART
## YEAR ENDING DECEMBER 31, 19__

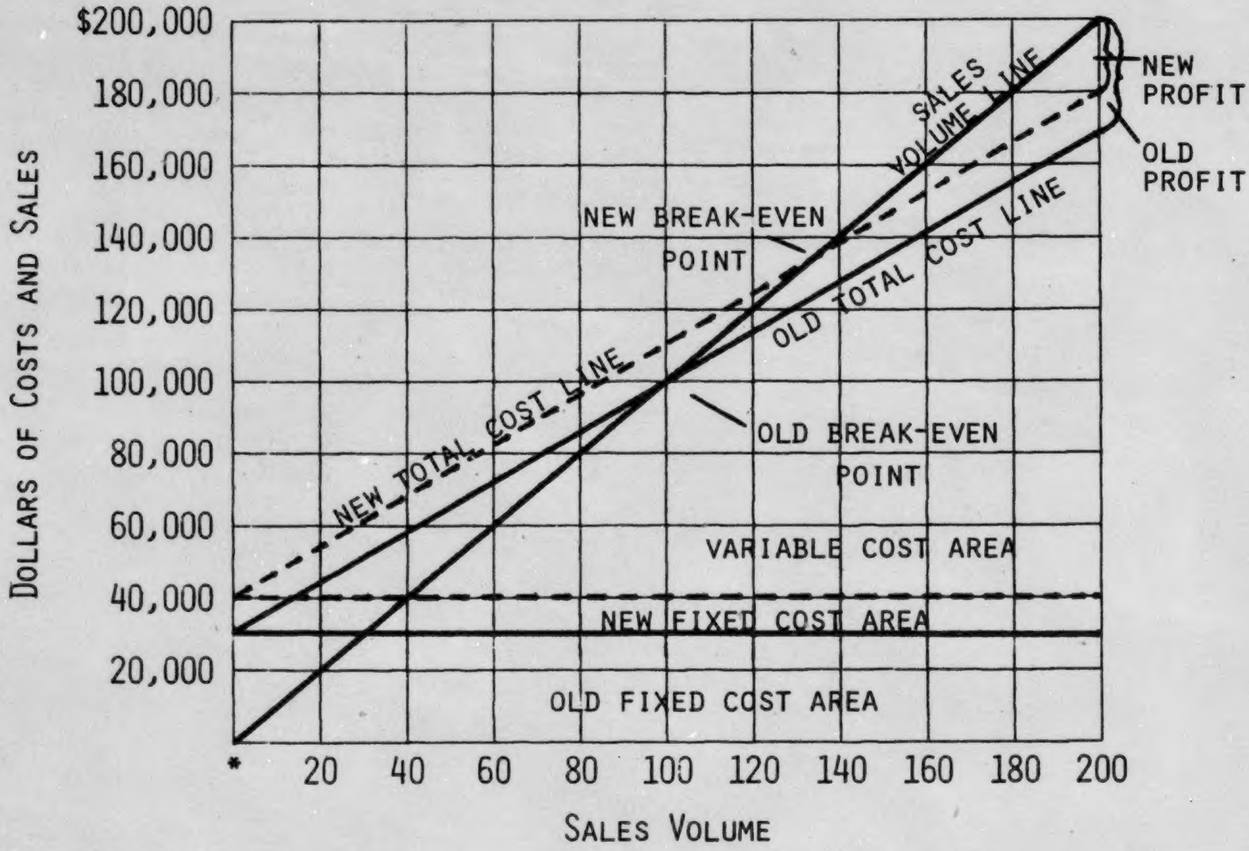


* = THOUSANDS

| | OLD | % | NEW | % |
|---|---|---|---|---|
| SALES VOLUME | $200,000 | 100 | $200,000 | 100 |
| VARIABLE COSTS | 140,000 | 70 | 140,000 | 70 |
| FIXED COSTS | 30,000 | 15 | 40,000 | 20 |
| NET PROFIT | 30,000 | 15 | 20,000 | 10 |

# APPENDIX C

## PROJECTED BREAK-EVEN CHART
## YEAR ENDING DECEMBER 31, 19__



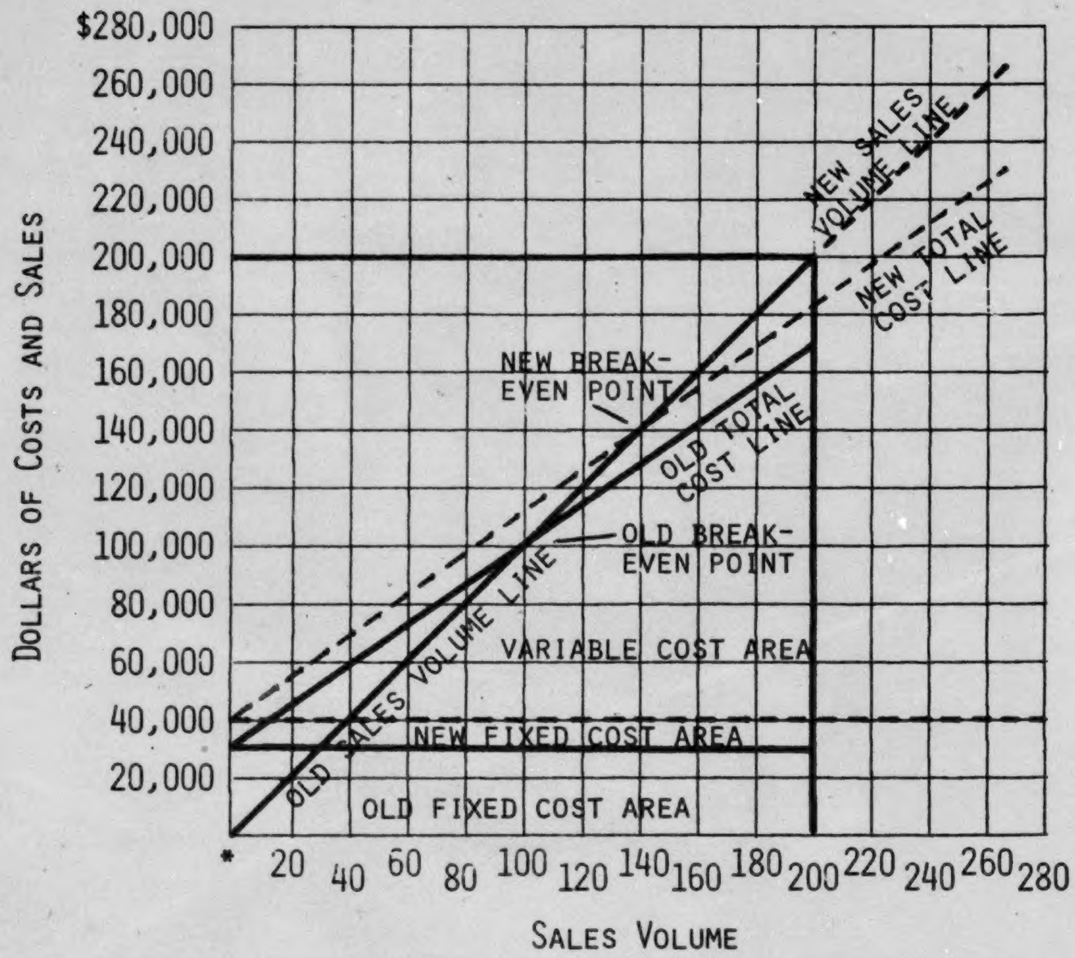
* = THOUSANDS

| | OLD | % | NEW | % |
|---|---|---|---|---|
| SALES VOLUME | $200,000 | 100 | $200,000 | 100 |
| VARIABLE COSTS | 140,000 | 70 | 140,000 | 70 |
| FIXED COSTS | 30,000 | 15 | 40,000 | 20 |
| NET PROFIT | 30,000 | 15 | 20,000 | 10 |

# APPENDIX D

## PROJECTED BREAK-EVEN CHART

SHOWING INCREASED SALES VOLUME NEEDED
TO MAINTAIN 15% NET PROFIT WITH
A $10,000 INCREASE IN FIXED COSTS



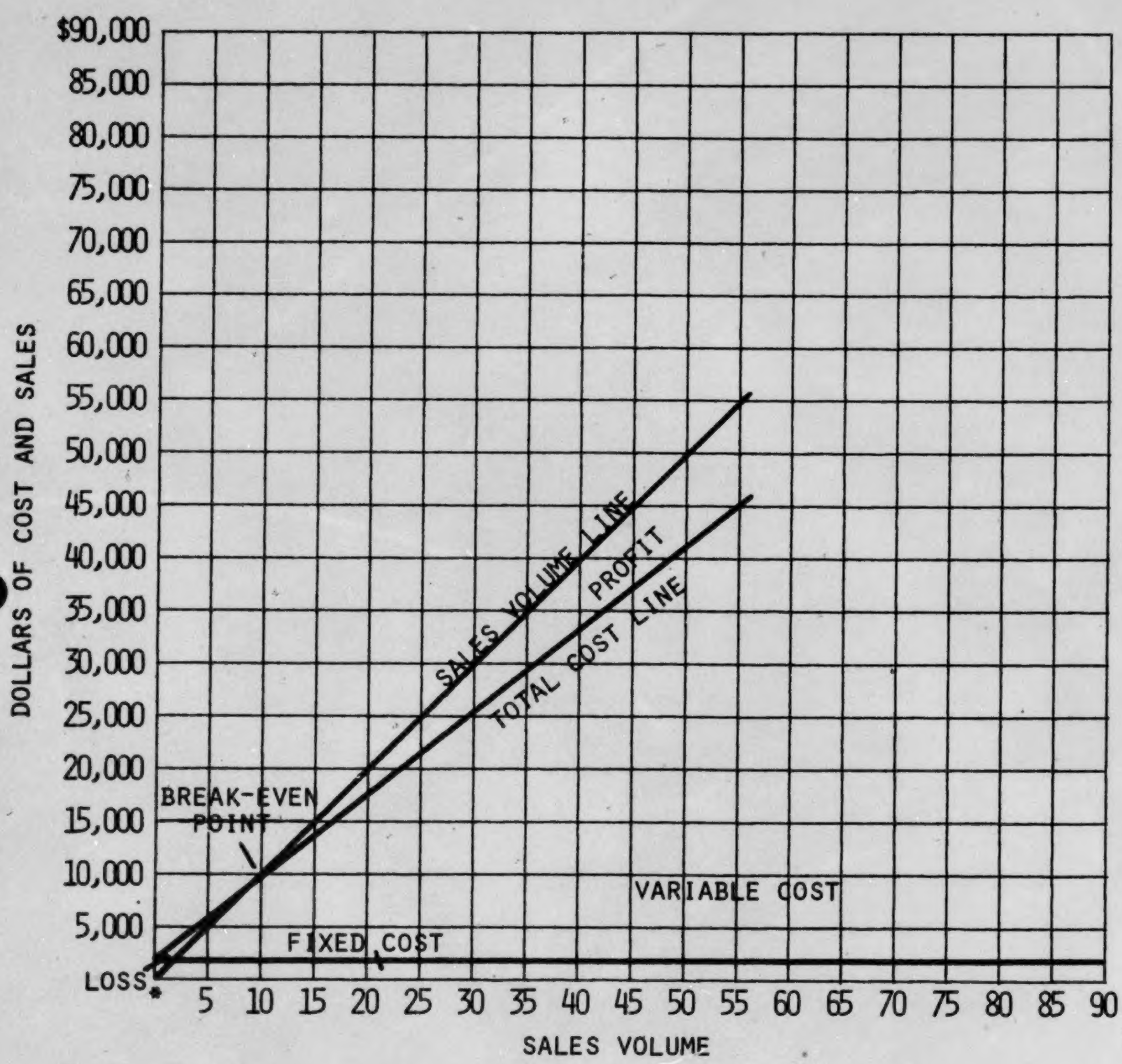
* = THOUSANDS

| | OLD | % | NEW | % |
|---|---|---|---|---|
| SALES VOLUME | $200,000 | 100 | $266,690 | 100 |
| VARIABLE COSTS | 140,000 | 70 | 186,690 | 70 |
| FIXED COSTS | 30,000 | 15 | 40,000 | 15 |
| NET PROFIT | 30,000 | 15 | 40,000 | 15 |

# APPENDIX E

## PROJECTED BREAK-EVEN CHART

## DEPARTMENT A



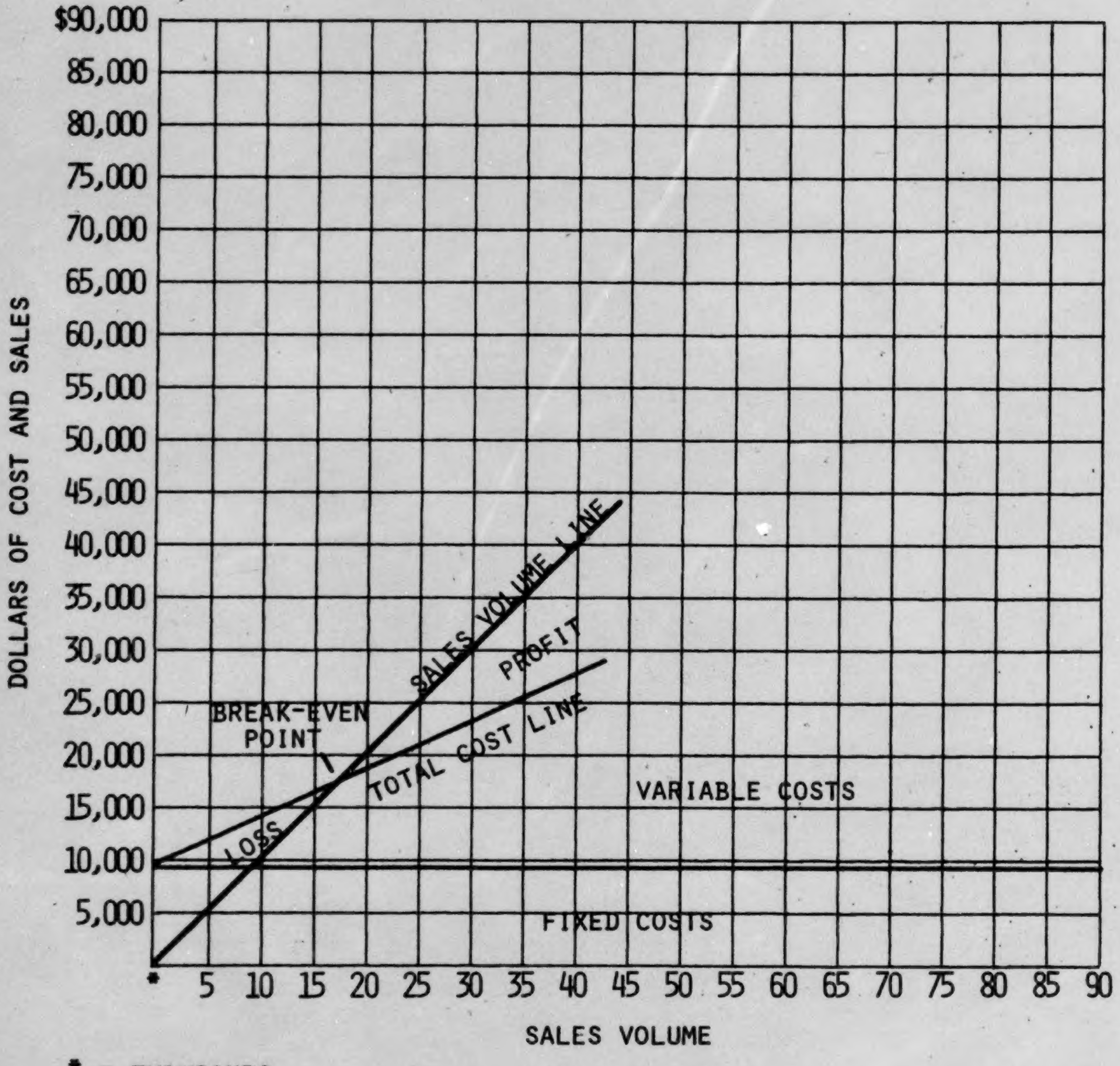
* = THOUSANDS

| | |
|---|---|
| Sales Volume | $56,000 |
| Variable Costs | 45,000 |
| Fixed Costs | 2,000 |
| Net Profit | 9,000 |

## APPENDIX F

### PROJECTED BREAK-EVEN CHART

### DEPARTMENT B



* = THOUSANDS

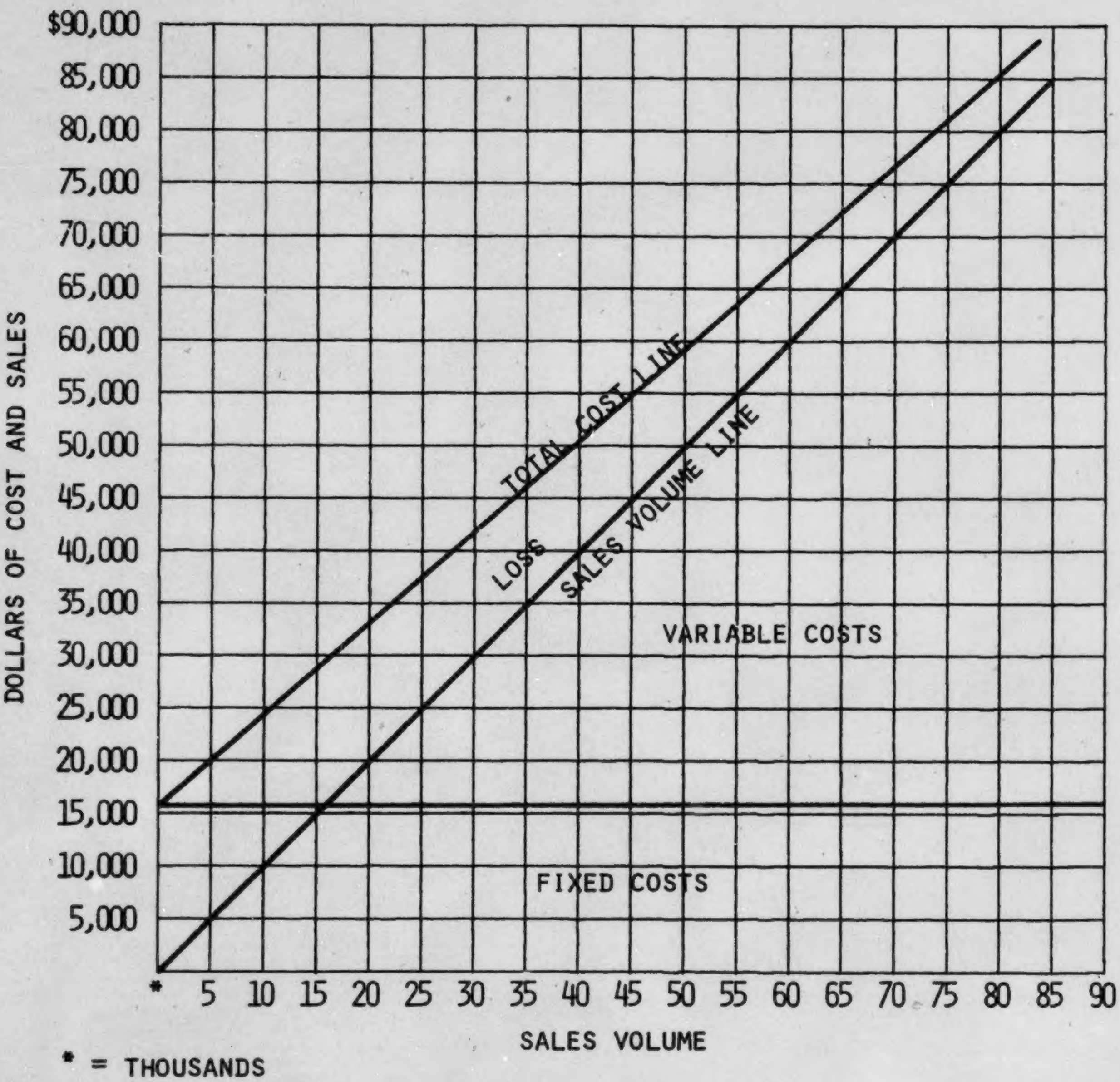
| | |
|---|---|
| Sales Volume | $44,000 |
| Variable Costs | 20,000 |
| Fixed Costs | 9,000 |
| Net Profit | 15,000 |

338

# APPENDIX G

## PROJECTED BREAK-EVEN CHART

## DEPARTMENT C



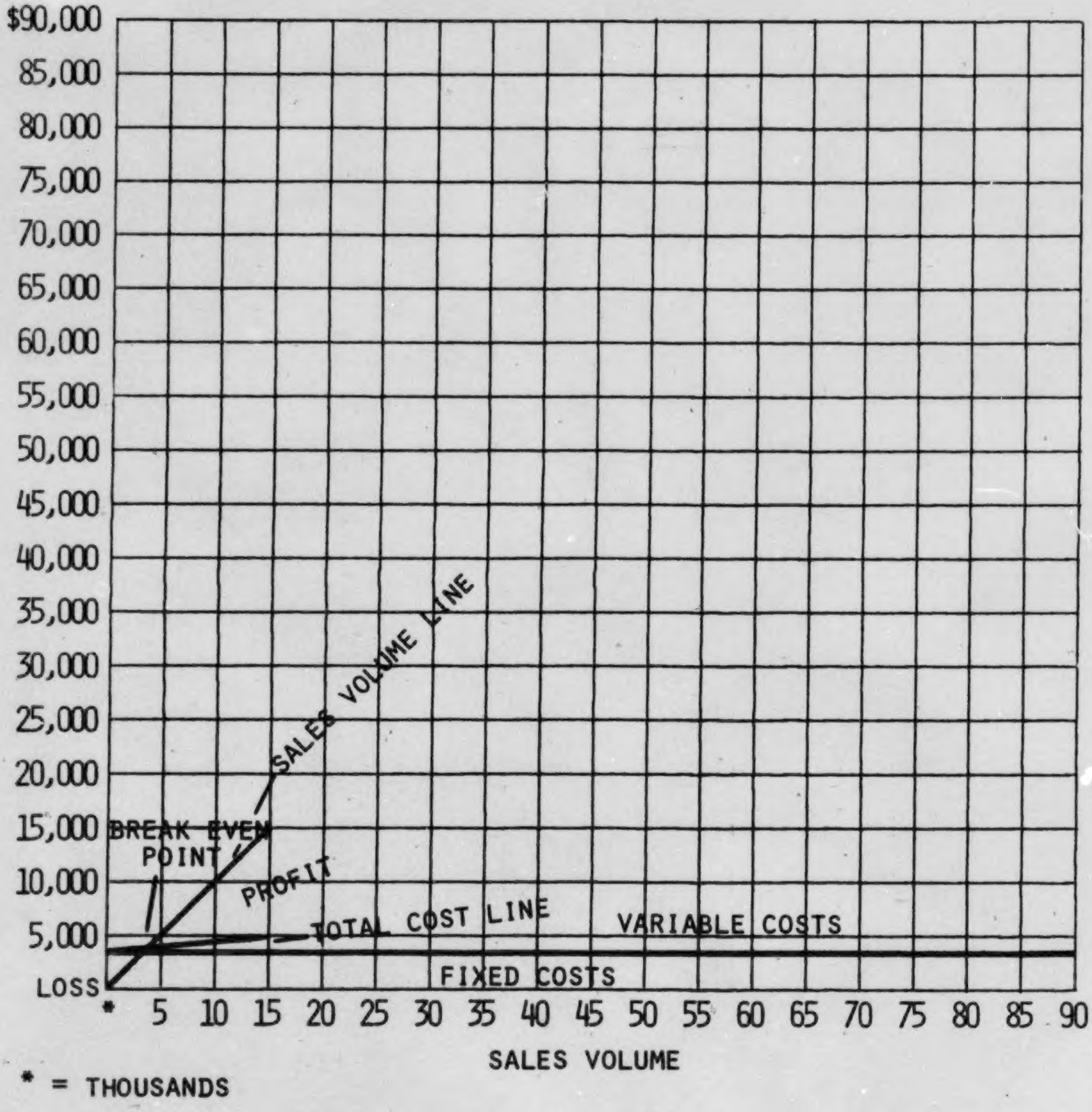
* = THOUSANDS

| | |
|---|---|
| SALES VOLUME | $85,000 |
| VARIABLE COSTS | 73,000 |
| FIXED COSTS | 16,000 |
| NET PROFIT | -4,000 |

# APPENDIX H

## PROJECTED BREAK-EVEN CHART

## DEPARTMENT D



* = THOUSANDS

| | |
|---|---|
| Sales Volume | $15,000 |
| Variable Costs | 2,000 |
| Fixed Costs | 3,000 |
| Net Profit | 10,000 |

340

# APPENDIX I

## DEPARTMENTS COMPARED TO WHOLE BUSINESS

| | | % OF WHOLE BUSINESS |
|---|---|---|
| DEPARTMENT A | | |
| SALES VOLUME | $56,000 | 28 |
| VARIABLE COST | 45,000 | 32.1 |
| FIXED COST | 2,000 | 6.7 |
| NET PROFIT | 9,000 | 30 |
| DEPARTMENT B | | |
| SALES VOLUME | $44,000 | 22 |
| VARIABLE COST | 20,000 | 14.3 |
| FIXED COST | 9,000 | 30 |
| NET PROFIT | 15,000 | 50 |
| DEPARTMENT C | | |
| SALES VOLUME | $85,000 | 42.5 |
| VARIABLE COST | 73,000 | 52.1 |
| FIXED COST | 16,000 | 53.3 |
| NET PROFIT | -4,000 | -13.3 |
| DEPARTMENT D | | |
| SALES VOLUME | 15,000 | 7.5 |
| VARIABLE COST | 2,000 | 1.5 |
| FIXED COST | 3,000 | 10 |
| NET PROFIT | 10,000 | 33.3 |

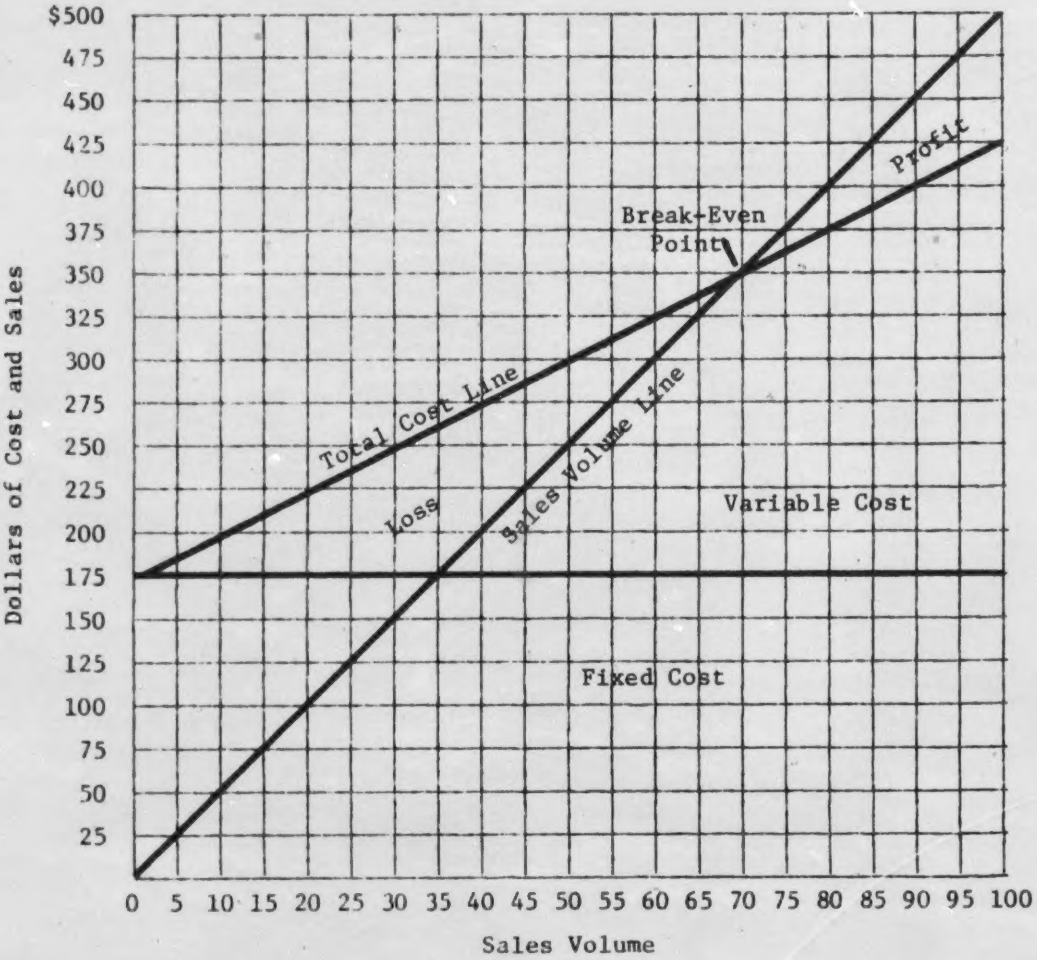
# APPENDIX J

## EVALUATION INSTRUMENT

## BREAK-EVEN ANALYSIS

Name Key

Use the information below to determine the break-even point by charting and mathematical calculation.



| | |
|---|---|
| Sales Volume | $500 |
| Fixed Cost | 175 |
| Variable Cost | 250 |
| Net Profit | 75 |

100 Units which are sold for $5 each.

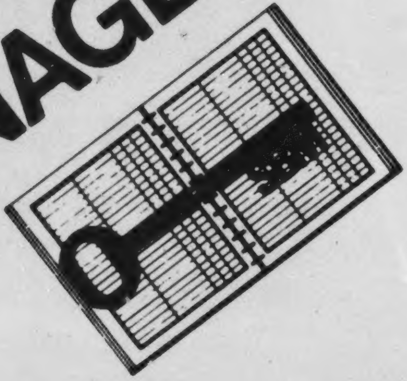
The formula for determining the "break-even" point mathematically is:

$$\frac{\text{Fixed Expense}}{\text{Unit Sale Price}} - \text{Unit Variable} = \text{Units to be sold to reach the "break-even" point}$$

$\frac{\$175}{\$5} - 2.50 = \frac{175}{2.50} =$ 70 Units to be sold to reach the "break-even" point.

70 x \$5 = \$350 = Dollars worth of merchandise to be sold to reach the "break-even" point

# SMALL BUSINESS MANAGEMENT



Going-Into-Business

Module 15

# Maximizing Profit

For Adult and/or Post Secondary Instruction

# Module #15

# MAXIMIZING PROFIT

## PART I. Introduction

The goal of each business is to make profit. This module will illustrate different methods of maximizing profit for a business. You will study maximizing profit as it might be affected by increasing sales, expense control, capital addition and return on investment. There may be other ways to look at maximizing profit in a business, but these four methods are among the most practicial and important.

## PART II. Objectives (Behavioral)

A. At the conclusion of this module the student will be able to identify the relationship of increasing sales to maximizing profit by selecting at least three methods of increasing sales.

B. At the conclusion of this module the student will be able to identify at least four methods of controlling expenses to maximize profit.

C. At the conclusion of this module the student will be able to show an understanding of maximizing profit through capital addition by identifying at least two capital addition strategies.

D. At the conclusion of this module the student will be able to calculate at least five ratios, including return on investment, utilized in maximizing profit.

## PART III. Transition of Modules

This is the final module for this group of "Going-Into-Business" modules. It should be taught after the Break-Even Analysis module which points out the importance of determining the break-even point for a business.

## PART IV. The Lesson

### *Attention Focuser*

*Illustrate on the board the effect of a 5 cent supply cost reduction per occupied room by eliminating in-room stationery in a 100 unit motel with a 75% occupancy rate. Rooms occupied; 27,375 per year, multiplied by 05¢ = $1,268.75 increased profits.*

*Show the effect of a minute reduction in the average time it takes for maids earning $2.50 per hour to clean a room. One minute cost saving of 4.166 cents multiplied by rooms cleaned, 27,375 = $1,1140 increased profits.*

*Show the effect of a 1% increase in price on a $20 room. Twenty cents multiplied by 27,375, occupied rooms, equals $5,475 increased profit.*

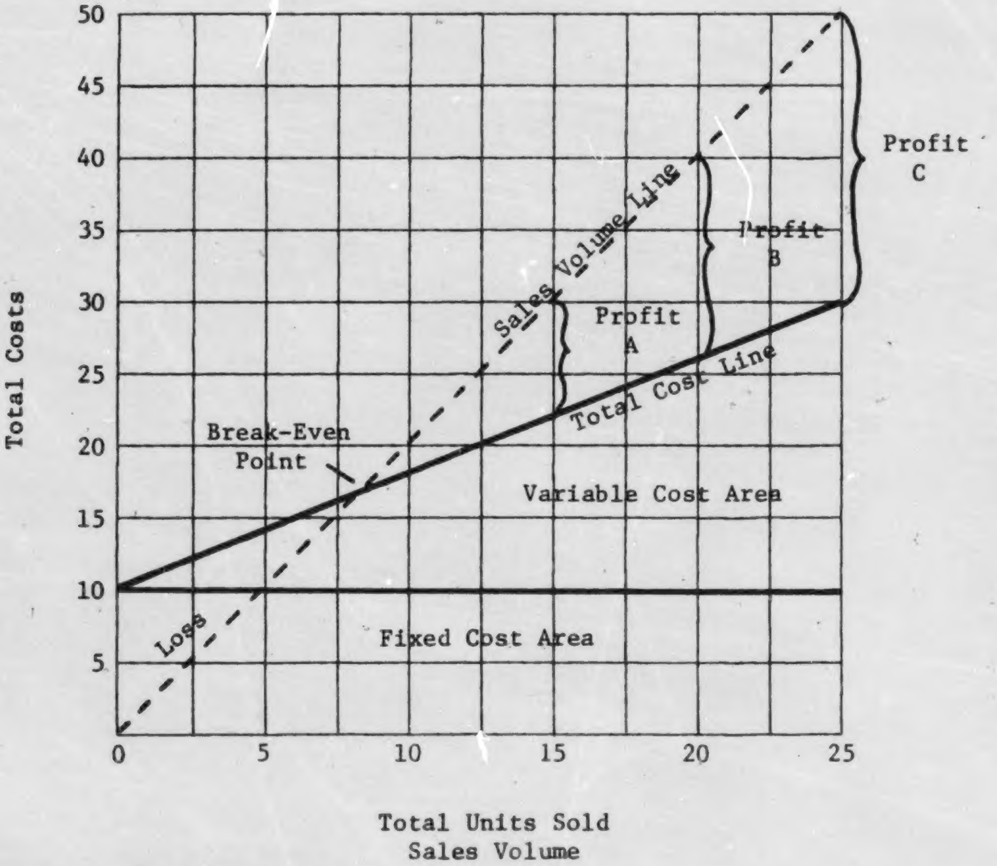
KEY QUESTION 1. What are three methods of increasing sales to maximize profit?

## Increasing Sales

There is no argument that increasing sales is a very important factor in maximizing profit in a business. Numerous methods of increasing sales can be found in texts written about business management and selling.

The importance of increasing sales to affect profit can best be illustrated by reviewing break-even analysis principles. You probably recall this basic diagram from Module #14.

BREAK-EVEN GRAPH



You can easily observe that between the "break-even" point and the area identified as Profit A, a small amount of profit occurs. As you continue to study the graph, by the areas marked Profit B and Profit C, you will find profit increasing at a faster rate than total costs. Most of this effect was influenced by the declining per unit fixed cost factor. In some businesses as the sales volume increase variable costs may decline slightly per unit. This will occur if buying larger volumes results in discounts from suppliers.

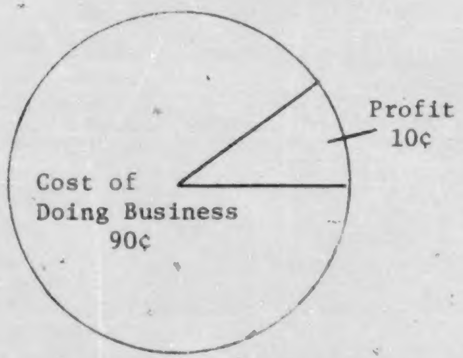
If fixed costs increase the total cost line will reach a higher point on the graph. The only way you will be able to reach the amount of profit identified as Profit C on the graph will be to increase sales. The increasing profit relationship to total costs will always exist (if products to be sold are priced right), even at lower sales volumes, but will only be impressive at increased volume levels.

To summarize the importance of using break-even graphing to maximizing profit the farther above the break-even point your sales volume line runs, the greater will be your profit. Profit will be greater in total dollars, but will also be easier to achieve by each additional sales volume dollar.

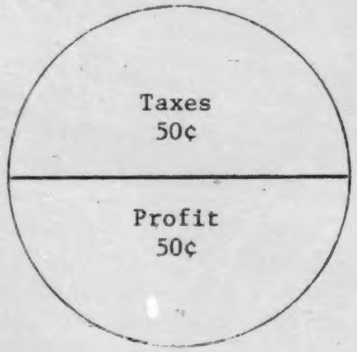
Is increasing the sales volume of your business the only way to increase profit? Is it the most effective way to gain an additional dollar of profit?

Let's try to answer both of these questions with two simple illustrations. First, we will look at the amount of profit earned by each sales dollar. We will then illustrate what happens to profit through cost-reduction.

The Sales Dollar



Cost-Reduction Dollar



If your business operated at a 10 percent net profit level you would find yourself spending 90 cents of every sales dollar to operate your business. Cost of merchandise or materials, wage, selling costs, advertising, repairs, etc. make up that 90 cents. Thus, for each sales dollar you earn 10 cents in profit for your efforts.

What happens when you reduce costs by one dollar? The old saying "a dollar saved is a dollar earned" doesn't quite hold true, but it presents a better profit influence than the added sales dollar. A dollar saved by reducing costs immediately moves into the profit column. However, profit is subject to taxes, often as high as 50 percent.

No two business operators manage their business in the same way. Some operators will be skillful in controlling costs, others have a greater talent in increasing sales. A balance of the two techniques for maximizing profits will produce the optimum level of profit.

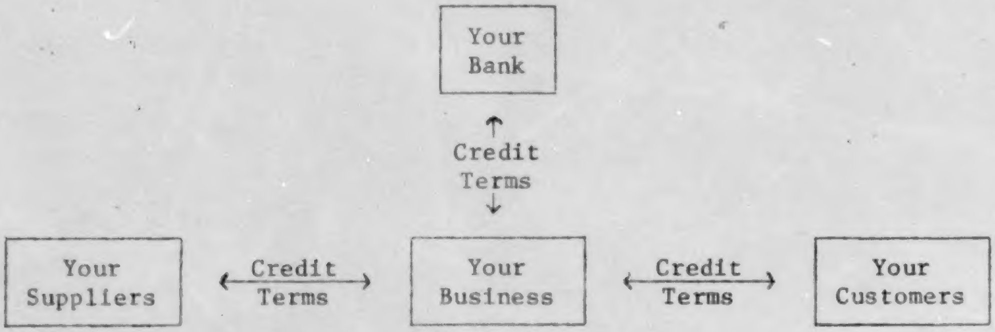
## Credit

Offering credit to consumers is another significant way to maximize profit in a business. The availability of credit will usually increase sales. Should you offer consumer credit in your business?

The decision to offer credit will be influenced by at least three issues. First, what kinds of goods or services will you sell? If your merchandise or service consists of small, low value, non-durable items, credit is probably not a good choice. Few customers will be satisfied making payments on an item which has worn out or been used up.

Large ticket items like stoves, bedroom sets, automobiles, televisions, extensive TV or auto repairs, are the kinds of things many people can't pay for in cash. Offering credit for these items will make initial sales possible and will probably increase sales if the credit is used as a sales tool.

The second issue in deciding to offer credit is the amount of capital it will take to finance credit sales. When you offer credit you are really making a loan to your customer. Like a bank, you will need cash reserves to carry you until installment payments are received. Your flow of cash and the cost of borrowing capital will appear like the diagram which follows if you decide to offer customer credit.



Credit is usually a successful sales tool if the cash flow is maintained. From the preceding diagram it should be obvious that borrowing money from a bank and obtaining credit from suppliers will cost a business money. The only way you have of balancing the scales is to charge customers for the use of credit and hopefully to gain extra profit through increased sales.

The third issue to consider in extending credit is the position of competitors. Do they offer credit? If they do, you will have to devise a better and more attractive credit plan than your competitors if you wish to attract customers.

Credit is usually granted under the form of a single-payment loan or as an installment loan. Single-payment loans are repaid in full, including interest, after a specified period of time in one payment. Installment loans are paid back on a weekly, bi-weekly or monthly basis over relatively long periods of time. A single item, like an auto, may be repaid over a 36 or 48 month period. Other open installment credit accounts allow customers to make purchases (up to certain dollar limits) and to pay a percentage of the account balance in monthly installments.

Credit records can be used to determine how departments or individual sales clerks are doing. If credit is considered essential in the production of profit you need each salesperson in your business promoting the use of credit. Your credit records will help by telling you how good a job each salesperson is doing in credit sales.

You may need to offer a variety of special services to your credit customers to make the use of credit more attractive. Check cashing and other personal services offered to credit customers may help you expand your credit sales, but care should be taken not to offend cash customers.

It is important that you price your merchandise with an allowance for returned merchandise, cost of collections, bad debts (uncollected accounts receivables) and any other costs you expect to incur through the granting of credit. These additional costs have been estimated to run from three to over five percent of your total credit sales.

A small, but very important point in the granting of credit to retail customers is the suggestion or encouragement for personal installment payments to be made in the business. This procedure will allow you to maintain close, personal contact with your customers while increasing customer traffic in your business.

Credit in a wholesaling business is usually essential to doing business with small retailers. If you plan to operate a wholesale business you are in an important position to assist promising new businesses and to prevent "poor business risks" from getting started. Credit has become a powerful business tool.

As a wholesaler, most of the credit advantages discussed earlier as they related to retailing, apply to your business. You can use credit to maximize profit by studying your credit accoumts, and applying the same strategies used by the retailer in dealing with customers.

The use of credit in your business, without regard to business type, will be beneficial to you if it allows you to gain and hold customers who would not otherwise do business with you. Credit becomes a valuable tool when it is used in managing the business toward maximum profit through the use of information provided by customers credit records.

## Pricing vs Elasticity

Another major area of consideration in maximizing profit deals with the elasticity of demand. Is the demand for your products or services elastic or inelastic? Perhaps it would help to review what the terms mean.

A common sized container of household salt sells for about 30 cents in most grocery stores. If the price was lowered to 25 cents, or even 20 cents what do you think would happen? What would happen if you increased the price of salt by the same amounts as you lowered it? Most people would buy it at any of the prices mentioned. But would they buy any more or any less if the price were lowered or raised? Probably not! It's pretty hard to use more salt - even if it were cheaper.

This is an illustration of inelastic demand. If you lower your price on an item like salt you simply loose money, because your customers will continue to buy the same amounts as at your old price. If you increase your price, your customers will probably continue to buy the same amount, but may buy it from your competitors.

What about the price and demand for red meat. Most people include red meat in at least one meal each day. However, if meat prices increase, demand slackens until prices come back down to previous levels. Special price reductions or a general price depression because of surplus red meat will cause people to buy and eat more meat. This is an example of an elastic demand item.

Let's use a brief illustration of the effect of a price reduction with an elastic demand. Assume that product B has a highly elastic demand, while product A is only slightly elastic in demand.

## Price Reduction With An Elastic Demand

| Price | | A | B |
|---|---|---|---|
| $3.00 | Number Sold | 10,000 | 10,000 |
| | Total Sales | $30,000 | $30,000 |
| | Total Expenses | 27,000 | 27,000 |
| | NET PROFIT | $ 3,000 | $ 3,000 |
| $2.50 | Number Sold | 11,000 | 18,000 |
| | Total Sales | $27,500 | $45,000 |
| | Total Expenses | 24,750 | 40,500 |
| | NET PROFIT | $ 2,750 | $ 4,500 |

In this example it would have been profitable to lower the price on Product B but not on Product A to increase sales. When an item like Product A has little elasticity it would be better to keep the price constant and increase advertising to increase sales.

You can increase sales (demand) for a product or service that has an elastic demand by lowering its price until you saturate the market. When that occurs a diminishing returns effect will start to take place indicating you have gone beyond the point of maximizing for that product or service.

### *Suggested Teaching Strategy*

*Utilize Appendix A, in transparency form, to illustrate the effect of increasing sales has on profit. Use Appendix B, in transparency form, to illustrate the difference between the profit from an increased sales dollar and a cost reduction dollar. Use Appendix C, in transparency form, to illustrate the use of credit. Use Appendix D, in transparency form, to illustrate the effect of elasticity of a product on profit.*

KEY QUESTION 2. How do you control expenses to maximize profit?

Allocating or budgeting expenses to the smallest, logical unit in your business is essential for effective management. Remember, cutting costs or expenses does not require additional capital on your part. It is the quickest and easiest way to maximize profit.

What works for someone else may or may not work for you. Some businesses save money by lowering advertising expenses. You may have to raise yours to make money.

If you were the owner of a 100 unit motel and business wasn't great, and a big fancy chain motel opened up across the street, what would you do? Panic, tighten up your belt or throw in the towel. Let's study this situation. As its owner, did you know? If your stationery cost per room is 5¢ and you have a 55% occupancy rate, that means 365 days x 100 units = 36,500 units available/year, 36,500 units/year x 55% = 20,075 rooms occupied per year. If you decide to eliminate the 5¢ per room stationery item, 20,075 rooms x 5¢ = $1,003.75. You have just reduced your stationery expense (part of total expense) by $1,003.75. What did you increase by controlling your expenses?

Now that we have your attention as the owner of the motel, let's study this business of expense control to see if you can stay in business just by controlling your expenses. What expenses would it be logical to look at? 1) Labor costs, 2) supply costs, 3) advertising costs, 4) taxes, 5) maintenance costs, 6) inventory costs and 7) interest costs. What other alternatives are there that we might want to consider along with expense control? 1) Increase prices, 2) decrease prices, 3) increase percentage of market, 4) expand market area, 5) offer more services and 6) offer different services. Study the two previous lists. As the owner of the motel you might want to consider strategies from both lists.

A brief review of the current situation of I-94 Motel: 100 units; 55% occupancy; budget type facilities; 24 hr. family restaurant next door; national referral group membership; $18 average room rate; $7,675 net profit (2.1%). Is the current situation described by these facts good or bad? If you looked only at the bottom line you would have to answer bad. How bad or how good figures like these are dependent on the average for the industry and your expectations or goals. Let's compare your I-94 Motel to the industry averages for budget motels on a few expense items. We will look at maid service, room supplies and laundry.

| I-94 | Budget Motel Avg. | % Diff. |
|---|---|---|
| Maids at $1.50/room | Maid at $1.00/room | 50% |
| Room Supplies 35¢ | Room Supplies 20¢ | 33% |
| Laundry Service $1.00/room | Laundry Labor 15¢/room<br>Supplies & Replacement 15¢/room | 70% |

Total annual cost, 20,000 rooms occupied:

| | | | | Cost Diff. |
|---|---|---|---|---|
| Maid | $30,000 | Maid | $20,000 | $10,000 |
| Supplies | 7,000 | Supplies | 4,000 | 3,000 |
| Laundry | 20,000 | Laundry | 6,000 | 14,000 |
| | $57,000 | | $30,000 | $27,000 |

Obviously your I-94 Motel does not compare well to the Budget average. Let's examine the room supplies carefully.

| I-94 | Cost | Budget Motel Avg. | Cost |
|---|---|---|---|
| Matches | $.02 | Matches | $.02 |
| Plastic Glasses | .04 | Plastic Glasses | .04 |
| Glass Bag Containers | .03 | Saranwrap | .01 |
| Toilet Tissue | .03 | Toilet Tissue | .03 |
| Kleenex | .05 | (None) | |
| Sanitary Bags | .03 | (None) | |
| Toilet Strips | .02 | (None) | |
| Hand Soap 3/4 oz. | .07 | Hand Soap 1/2 oz. | .04 |
| Maid Cleaning Supply | .06 | Maid Cleaning Supply | .06 |
| | $.35 | | $.20 |

I-94 Motel is currently paying $1.00 per room for laundry service. At 55% occupancy the 20,000 rooms occupied account for $20,000 of expenses. The Budget Motel average is much lower.

It's obvious the Budget Motels must own their own in house laundry equipment. If they can do it, why can't you? What would your initial investment amount to?

Initial Investment

| | |
|---|---|
| 2 Each Commercial Washer & Dry | $ 8,000 |
| Installation (Plumbing & Wiring) | 2,000 |
| Linens & Towel Purchase | 5,000 |
| | $15,000 |

Adding interest to this investment and depreciating it over four years would result in an annual depreciation and interest expense of $4,800.

Total Annual Cost Of
In House Laundry Operation

| | |
|---|---|
| Estimated New Operating Costs | $ 5,000 |
| Equipment Deprec/Amort/Interest | 4,800 |
| Replacement/Supplies | 4,700 |
| Increase Utilities | 1,500 |
| | $16,000 |

Present laundry service $1.00/room average = $20,075. How much will your annual savings amount to?

You might recall that the I-94 Motel paid $1.50 in wages per room to have them cleaned. The Budget Motel average was $1.00/room. Can you match it? A simple bonus plan might do the job. Let's assume the minimum wage you could pay was $3.00/hour. If you expect to get rooms cleaned for $1.00 in wages per room, then each room must be cleaned in 20 minutes.

The incentive to get the job done in 20 minutes or less is to offer a bonus plan. If an employee can clean rooms satisfactorily in 18 minutes per room their pay would be calculated like this:

$$\frac{20 \text{ min.}}{18 \text{ min.}} = 100 = 111\%, \ 111\% \times \$3.00/\text{hr.} = \$3.33$$

The extra 33 cents per hour represents a bonus for extra productivity. The availability of the bonus should keep costs in line with the Budget Motel average.

The room supplies we looked at earlier were small but significant in total dollar difference between your I-94 Motel and the Budget Motel average.

Change the coverings on the glasses and reducing the size of the soap, doesn't appear to be decisions which would affect customer relations. But what about the removal of kleenex, sanitary bags and toilet strips. Which of the three items do you think you could remove without seriously affecting customer relations? Select the items you would remove.

We have looked at cutting costs in several areas. What about cutting price? What is the theory behind a "budget" motel? Location, should be on an interstate highway fairly close to a city of considerable size, at a good entry point, should be one or more successfully operating major chains in immediate vicinity, but no budget operations and should also be a good family type restaurant immediately available. Price, should be 25% under the major chain and be well identified on all signs. Efficiency and Operation, should strive for cost reductions similar to the examples you have just seen.

Let's take two big steps with I-94 Motel:

1. Reduce average price to $15.00 per room.
2. Re-name to I-94 Budget Motel.

Actual cases have been reported where occupancy in a budget motel operation went from 40% to 97% in three years. After the room price was cut 20%. We can make some projections on the future of your motel based on the expense reductions and the price cut.

| | | I-94 Motel<br>55% Occupancy<br>20,075 U Rented | | I-94 Budget Motel<br>65% Occupancy<br>23,725 U Rented |
|---|---|---|---|---|
| Income: | Room Revenue; $18.00 Avg. | $364,950 | $15 Avg. | $355,875 |
| | Vending & Other (After Costs) | 2,125 | | 2,625 |
| | | $367,075 | | $358,500 |

| | I-94 Motel | | I-94 Budget Motel | |
|---|---|---|---|---|
| Operating Expenses: | Amount | Percent | Amount | Percent |
| Salaries & Wages | $66,000 | 18.0 | $70,000 | 19.5 |
| Payroll Taxes & Insurance | 6,600 | 1.8 | 7,000 | 2.0 |
| Linen Replacement & Laundry Supply (20¢/room) | (none) | | 4,700 | 1.3 |
| Laundry Service (Approx $1/room) | 20,000 | 5.4 | (none) | |
| Utilities | 22,500 | 6.0 | 24,000 | 6.7 |
| Maintenance/Service & Repair | 6,500 | 1.8 | 7,000 | 2.0 |
| Supplies (35¢/room) | 7,000 | 1.9 | (25¢) 5,900 | 1.6 |
| Telephone | 10,000 | 2.7 | 10,000 | 2.8 |
| Advertising & Promotion | 8,000 | 2.2 | 12,000 | 3.3 |
| Referral & Endorsement Groups | 13,000 | 3.5 | (none) | |
| TV-Leased | 10,000 | 2.7 | 10,000 | 2.8 |
| Misc. Operating Expenses | 8,000 | 2.2 | 8,000 | 2.2 |
| Laundry Equip. Depr/Amort 4 yr. | (none) | | 4,800 | 1.3 |
| Legal and Accounting | 3,600 | 1.0 | 3,600 | 1.0 |
| Insurance | 3,600 | 1.0 | 3,600 | 1.0 |
| Credit Card Discount & Bad Debt | 3,600 | 1.0 | 3,600 | 1.0 |
| TOTAL Operating Expense | $188,400 | 51.3 | $174,200 | 48.6 |
| Capital Expenses: | $171,000 | 46.6 | $167,000 | 46.6 |
| Total Expenses: | $359,400 | 97.9 | $341,200 | 95.2 |
| NET PROFIT | $ 7,675 | 2.1 | $ 17,300 | 4.8 |

We have just seen your profit increase from $7,675 to $17,300 even though your average room rate decreased from $18 to $15. The difference resulted from an increase occupancy rate going from 55% to 65%. Because of efficiencies expenses were also reduced from $359,400 to $341,200.

## *Suggested Teaching Strategy*

*Utilize the illustration of the I-94 Motel to promote this discussion of controlling expense. Use Appendices E and F, in transparency form, to examine expenses which can be controlled.*

KEY QUESTION 3. How can you maximize profit through capital addition?

## Increasing Debt Liability (Borrowing Money)

We can make four statements that will set the tone for your considerations of maximizing profit through increasing your debt liability:

1. Assuming debt liability is considered a capital investment and a very costly one at todays interest rates.

2. Before you commit your business to an increased debt liability you must carefully plan and take the necessary steps toward the reorganization process. The gathering of all possible relevant information that has a bearing on the ability of your business to repay the debt is essential.

3. Projecting possible business outcomes must be carefully studied with the element of risk in mind at all times.

4. You will live with a debt commitment for a long time. While it is often necessary to expand, expansion can mean disaster as well as success.

Let's assume you have considered expanding your business and have three general means of accomplishing the expansion. Each opportunity will require you to borrow money, so you wish to decide on the best alternative. The opportunities are; to add on to the existing building, to buy and connect on to an adjoining business, or to sell and relocate in a larger building.

As you gather facts and information you should consider organizing all the information you collect into the following areas:

1. Competitive Situation: How does your current location compare to a relocation area regarding your competition?

2. Market Situation: Will you now be competing with bigger operators in similar businesses if you expand, or will you continue with the same image?

3. Building Costs: Construction costs need to be compared to the outright purchase cost of the relocation. (Don't forget to check out lease costs so that leasing versus buying or building can be studied).

4. Finance Costs: What terms are available for the money you need to borrow, and what are the available sources?

5. Loan Disbursement: How will your new loan effect any previous loans you now have?

6. Additional Cost of Ownership: What will happen to property taxes, insurance, repairs, utilities, etc. under each of the three opportunities.

7. Tax Benefit: Depreciation expense must be calculated for each opportunity.

8. Lease Comparisons: Even though you plan to build or buy, don't avoid gathering information about leasing comparable space.

9. Sales Projections: How will each of the three opportunities add to your sales? Your debt liability must be paid for through increased sales, thus, this question is extremely important.

10. Additional Sales Cost: How many additional employees will be needed and what change in advertising will occur under each of the three opportunities.

Obviously you can't try out each of the three opportunities. With the facts you have just gathered you should be able to organize your evaluation as follows:

1. Opportunity to add-on to existing building.

   Advantages Disadvantages

2. Opportunity to buy and connect to adjoining business.

   Advantages Disadvantages

3. Opportunity to sell and relocate in larger building.

   Advantages Disadvantages

Based on your list of advantages and disadvantages prepare a statement outlining your choice.

Take all necessary action to complete your business organization through increasing your debt liability. Live within your projected budget, including sales projections.

The outline we have presented appears only to "fit" those business owners already in business. With a few adjustments the procedure will be similar to that found in the Finance Module, which is specifically designed for one going-into-business.

Assuming all of the risk by increasing your debt liability may not be possible or desirable to you. The total amount of the increased debt may weigh heavily on your final decision, even though your business appears like it has the repayment capacity. There is an alternative to assuming all of the risk yourself - share it with others.

## Selling Part Ownership of Your Business

Attempting to maximize profit through expense control or by increasing debt liability assumes that you maintain full ownership and control of your business. The second method of reorganization with an additional capital investment is by selling part ownership to a second party.

The risk factor is still present but instead of expanding wholely on increased debt, there is a considerable capital investment made by a second party. As a result of this outside investment to effect expansion, your basic business structure will change. The results of this change and the expansion have a powerful impact on this business situation as to potential and immediate return.

How do you know when you are ready to expand your business? There are several indicators you might observe that will prompt consideration of business expansion.

1. Inability to meet customer demand.
2. Inefficient operation due to size and volume of production.
3. Demands of a new product or service line.
4. New market potential such as a new factory in the area.
5. Desire to expand and develop a new market area.
6. Present volume not justifying continued operation.

If one or more of these conditions are present, you should study the possibility for expansion. However, an expansion should only be considered if it is in tune with your long range goals or objectives.

### *Suggested Teaching Strategy*

*Utilize Appendix G, in transparency form, to consider increasing debt liability. Use Appendix H, in transparency form, for a discussion about gathering and organizing relevant information about increasing debt liability. Use Appendix I, in transparency form, to outline advantages and disadvantages of alternatives. Use Appendix J, in transparency form, to discuss considerations of business expansion.*

KEY QUESTION 4. How do you calculate ratios, including return on investments, utilized in maximizing profit?

### Return On Investment (ROI)

Return on investment should have the most affect on your investment decision of any factors if you are concerned about maximizing profit. ROI tells you what kinds of a return profit you are earning on your investment. If you put your money in a bank you could expect earnings in the form of interest to be 7 or 8 percent. Can you earn more than that by investing in your business? If you can't you may not be making a wise investment decision.

As we compute ROI the factors of sales, working capital, capital employed and profit will be used in our formula. There are slight variations in the way different people calculate ROI. We will show you one accepted method. As you calculate ROI for your business in the future, be consistant with the method you use.

The basic ROI formula:

$$\text{ROI Rate} = \frac{\text{Profit}}{\text{Capital Employed}}$$

This formula can be reduced:

$$\text{Turnover} = \frac{\text{Sales}}{\text{Capital Employed}}$$

$$\text{\% Profit on Sales} = \frac{\text{Profit}}{\text{Sales}}$$

We can now restate the formula as:

ROI Rate = Turnover x % Profit on Sales

## Working Capital

To determine working capital within a business you would determine the current assets and subtract current liabilities.

Working Capital = Current Assets minus Current Liabilities

## Capital Employed

To determine capital employed with a business you would add fixed assets and working capital.

Capital Employed = Fixed Assets plus Working Capital

## Turnover

To determine the turnover rate of merchandise within a business you would divide sales by capital employed. Turnover is a measurement of the movement of assets in relationship to sales over a given period of time.

Turnover = Sales divided by Capital Employed

## Expenses

To determine the expenses for a business you would add the cost of merchandise and materials, selling expenses and operation and administration expenses.

Expenses = Merchandise and Materials plus Selling Expense plus Operation and Administration Expense

## Profit

To determine profit for a business you would subtract expenses from sales.

Profit = Sales minus Expenses

## Earning Rates

By dividing profit by sales you will get the earning ratio. This ratio is your percent profit on sales. Many P & L statements include this ratio or percentage figure just to the right of net profit on the bottom line.

Earning Ratio = Profit divided by Sales

If you have an accurate P & L statement and a balance sheet for your business you might simplify the procedure as follows:

| | |
|---|---|
| Net Sales | $153,800 |
| Less Expenses (Merchandise & Materials + Selling Expense + Operating & Administrating Expenses) | 141,800 |
| Net Profit | $ 12,000 |
| Working Capital (Cash & Accounts Receivable + Inventory - Current Liabilities) | $ 48,500 |
| Plus Fixed Assets (Excluding Land) | 37,400 |
| Capital Employed | $ 85,900 |

$$\text{ROI Rate} = \frac{\$12,000}{\$85,900} = \$13.96$$

To arrive at ROI Rate we saw how turnover and percent profit on sales were computed. Both of these ratios are very important in themselves. Turnover of inventory (capital) is essential in generating profit. For each dollar of sales, only a small portion usually is left as profit after all expenses are paid. The higher your turnover rate, the greater will be your profit. This is a key indicator in maximizing profit.

Percent profit on sales is affected by pricing and expense control (including purchasing) sales volume affects the percentage of profit, especially after the break-even point is reached.

Most people invest their money in a business to make more money - profit. A high rate of return is justified to compensate the business owner for risk, and to provide a sufficient incentive for continued investment. ROI is a measure of the final results of strategies to maximize profit.

*Suggested Teaching Strategy*

*Utilize Appendix K, in transparency form, to illustrate how to determine Return On Investment (ROI). Use Appendix L, in transparency form, to illustrate the other various formulas described within this module.*

## PART V. Summary

A. A business owner can maximize profit by increasing sales.

B. Controlling expenses can be a very effective method of maximizing profit.

C. The addition of capital to a business may be necessary to maximize profit.

D. The business owner must understand how to determine Return On Investment (ROI) and the importance of ROI to make intelligent decisions.

## PART VI. Unit Evaluation Instruments and/or Techniques

The students should be given a handout of the Glossary of Terms prior to the instruction of this module with instructions to study the terms listed. After completing the module the students should be given the maximizing profit evaluation instrument to determine their understanding of the material presented in this module.

## EVALUATION INSTRUMENT

## MAXIMIZING PROFIT

Name ________________________

Circle the correct answer for the following mutilple choice questions:

1. When sales continues to climb above the break-even point, profits:

   a. Increase at an increasing rate.
   b. Steadily decline until stability is reached.
   c. Climb sharply and then decline at a slow rate.
   d. Relate more to elasticity of demand than sales volume.

2. The increasing rate of profit on sales will drop sharply if:

   a. You are unable to secure major discounts through volume buying.
   b. The rate of profit prior to break-even was less than the rate achieved after break-even.
   c. Variable costs remain constant per unit of sales.
   d. There is a marked increased in fixed cost at a given sales volume.

3. The business practice of turning credit accounts receivables over to an outside company is called:

   a. Merchandise credit discounting.
   b. Consumer credit contracting.
   c. Factoring.
   d. Credit card financing.

4. Credit Sales enhance total customer sales because:

   a. Customers simply tend to buy more when they are able to charge their purchases.
   b. Stores that offer credit charge higher prices.
   c. Customers even out payments and thus can handle larger debt loads.
   d. Sales persons try harder when credit sales are part of their routine sales duties.

5. Elastic demand for a product means that:

   a. Sales of the product can be increased by altering the quality.
   b. When customers have more money they buy more of the product.
   c. The supply is variable.
   d. When price is reduced customers tend to buy more of the product.

6. If a product is known to have an inelastic demand, the best strategy for maximizing profit is:

   a. Reducing the price to stimulate sales.
   b. Increasing the price.
   c. Offering special promotions to stimulate sales.
   d. Offering credit for the purchase of the product.

7. If expanded capital contribution is a strategy you have chosen for maximizing profit, the use to which expansion capital is put must:

   a. Allow gradual expansion of the business.
   b. Improve the image and prestige of the business.
   c. Return more than the cost of borrowing capital.
   d. Return more than other uses which the capital could be assigned.

8. When a business operator uses expansion capital to maximize profit, the primary objective is usually to:

   a. Improve the cost structure of the business.
   b. Generate risk sharing alternatives.
   c. Improve the prospects of increasing sales.
   d. Reduce the operators personal risk.

9. The primary disadvantage most business operators list for obtaining expansion capital from outside investors is:

   a. Loss of some control over the business.
   b. Necessity to share profits.
   c. Risk involved with unknown investors.
   d. High cost of interest.

10. Business might be expanded through capital acquisition if:

   a. The demand for the products sold or produced was inelastic.
   b. The business operation was highly efficient but business volume was below the break-even point.
   c. There was demand for a new product or service.
   d. The fixed costs of the business were too low.

Answer the following questions by circling "T" for true and "F" for false.

11. Prompt, intelligent management decisions concerning expense control can usually be made in the absence of goals, standards or comparable reports. T F

12. Expense control can best be effected with the use of current comparable financial reports and a set of goals or standards. T F

13. Very small savings in costs per unit become increasingly important as sales volume increases. T F

14. All items of expense should be carefully examined for possible reduction as you effect an expense control plan. T F

15. Expense control must be accomplished without the competing effect of reducing prices. T F

16. The Turnover Ratio is calculated by the following formula: T F

$$\text{Turnover} = \frac{\text{Sales}}{\text{Capital Employed}}$$

17. Percent Profit on Sales is an important ratio calculated by the formula: T F

$$\text{Percent Profit on Sales} = \frac{\text{Profit}}{\text{Sales}}$$

18. Percent Profit on Sales is a fixed ratio usually not used in effecting profit maximization. T F

19. The ROI Ratio - Return on Investment is calculated by the formula: T F

$$\text{ROI Rate} = \frac{\text{Profit}}{\text{Capital Employed}}$$

20. ROI Rate is seldom used by business owners to measure maximizing profit efforts. T F

## PART VII. Transparency Masters and Other Teaching Support Materials

Glossary of Terms
Appendix A - Break-Even Graph
Appendix B - Sales Dollar vs Cost-Reduction Dollar
Appendix C - Borrowing Capital
Appendix D - Price Reduction with an Elastic Demand
Appendix E - Controllable Expenses
Appendix F - Alternatives to Expense Control
Appendix G - Increasing Debt Liability (Borrowing Money)
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Appendix K - Return on Investment (ROI)
Appendix L - Formula for Determining
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## GLOSSARY OF TERMS

Cost-Reduction Dollar - A dollar saved by reducing cost or expenses.

Disbursement - Money paid out.

Elastic Demand - By lowering the price of a product or service the demand for it will increase.

Formulate - To put in an exact, systematic form.

Inelastic Demand - By lowering the price of a product or service the demand for it will not increase.

Installment Loan - Money borrowed with an agreement to pay it back in periodic payments over a period of time.

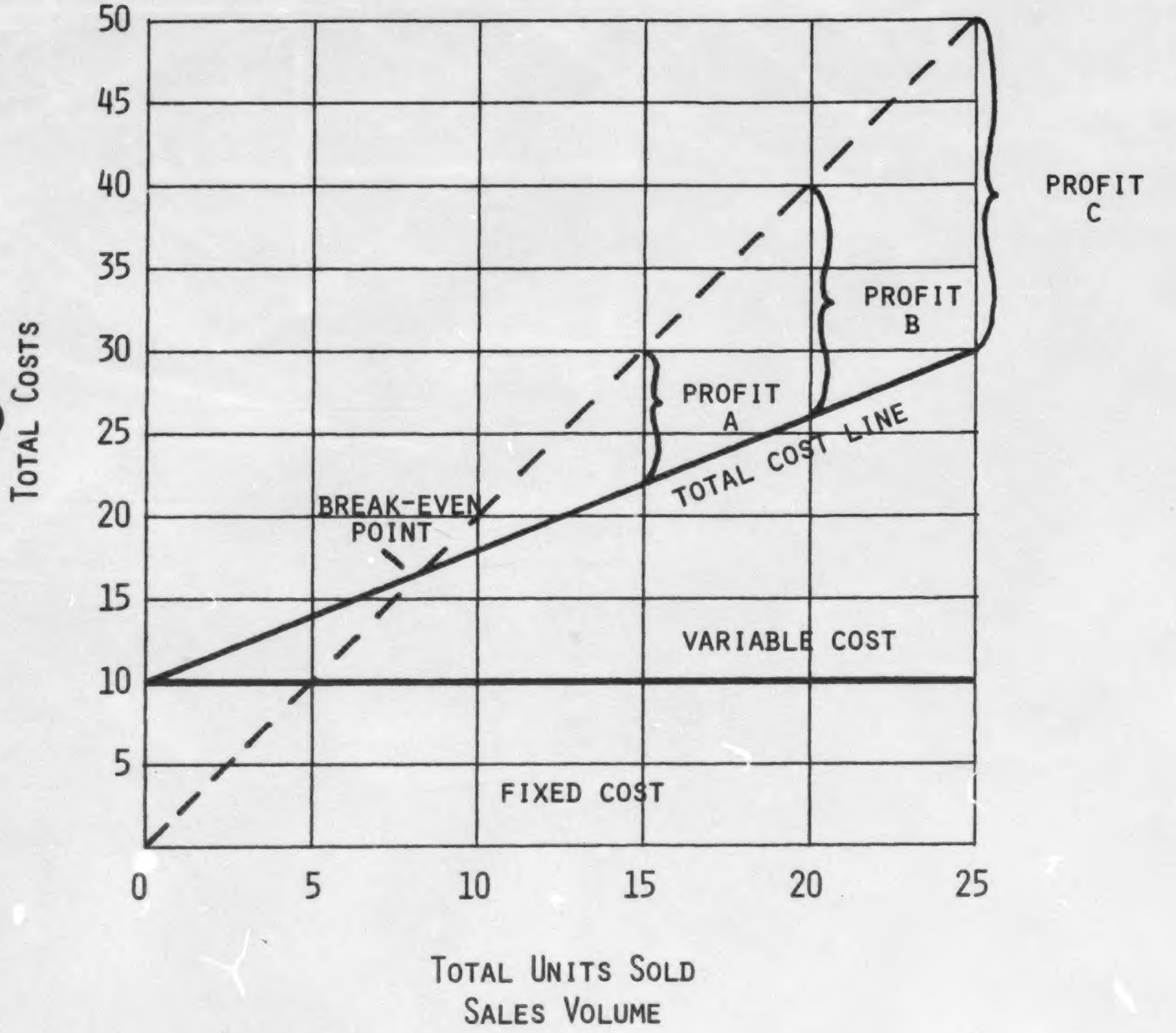
Investment - The investing of money or capital to gain interest or income.

Price Depression - A general marketwide situation often caused by surplus products or materials, or a lack of demand.

Return on Investment (ROI) - Profit earned by an investment of money or its equivalent.

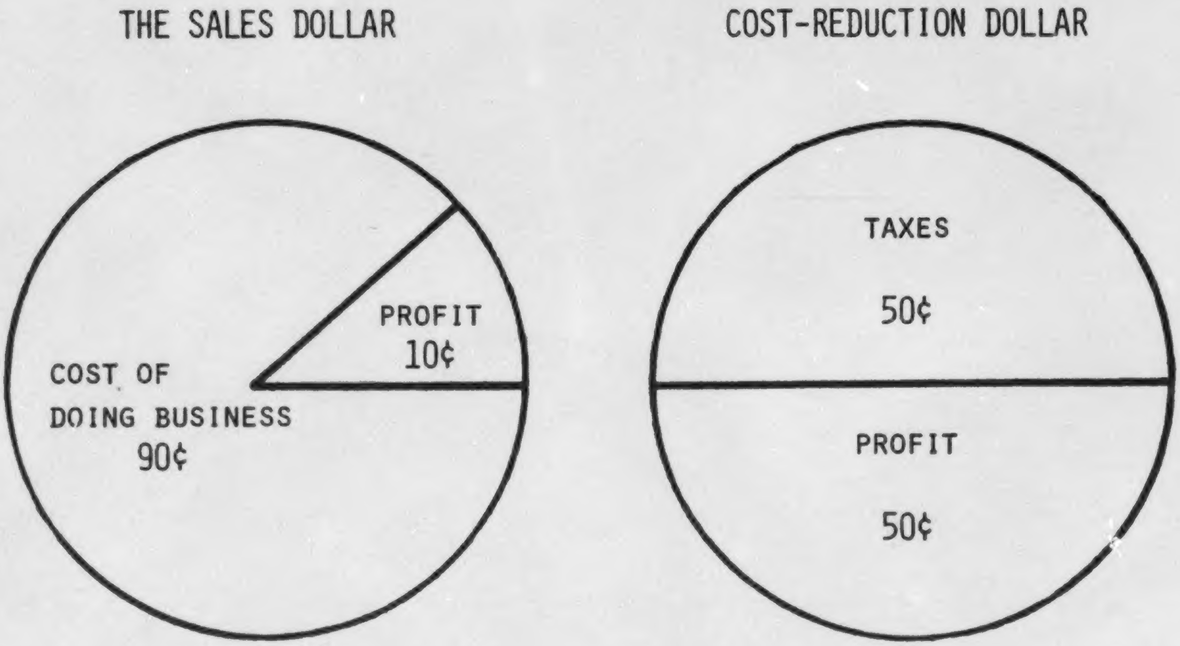
# APPENDIX A

## BREAK-EVEN GRAPH



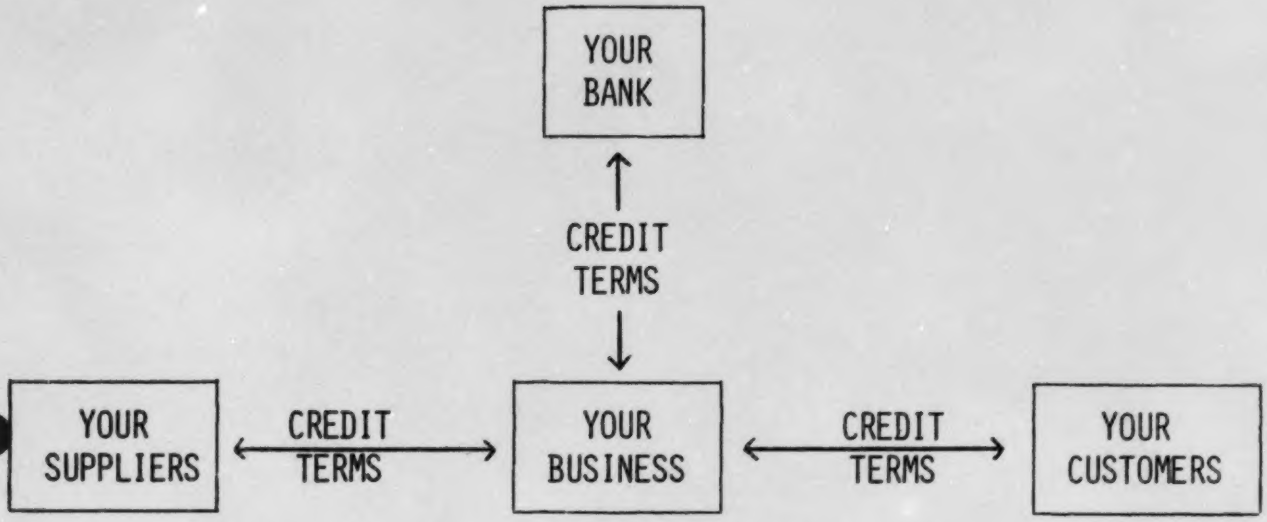
# APPENDIX B

## SALES DOLLAR VS COST-REDUCTION DOLLAR



# APPENDIX C

## BORROWING CAPITAL


YOUR BANK
CREDIT TERMS
YOUR SUPPLIERS
CREDIT TERMS
YOUR BUSINESS
CREDIT TERMS
YOUR CUSTOMERS

# APPENDIX D

## PRICE REDUCTION WITH AN ELASTIC DEMAND

| PRICE | | A | B |
|---|---|---|---|
| $3.00 | NUMBER SOLD | 10,000 | 10,000 |
| | TOTAL SALES | $30,000 | $30,000 |
| | TOTAL EXPENSES | 27,000 | 27,000 |
| | NET PROFIT | $ 3,000 | $ 3,000 |
| $2.50 | NUMBER SOLD | 11,000 | 18,000 |
| | TOTAL SALES | $27,500 | $45,000 |
| | TOTAL EXPENSES | 24,750 | 40,500 |
| | NET PROFIT | $ 2,750 | $ 4,500 |

# APPENDIX E

## CONTROLLABLE EXPENSES

1. LABOR COSTS
2. SUPPLY COSTS
3. ADVERTISING COSTS
4. TAXES
5. MAINTENANCE COSTS
6. INVENTORY COSTS
7. INTEREST COSTS

# APPENDIX F

## ALTERNATIVES TO EXPENSE CONTROL

1. INCREASE PRICES
2. DECREASE PRICES
3. INCREASE PERCENTAGE OF MARKET
4. EXPAND MARKET AREA
5. OFFER MORE SERVICES
6. OFFER DIFFERENT SERVICES

# APPENDIX G

## INCREASING DEBT LIABILITY
## (BORROWING MONEY)

1. ASSUMING DEBT LIABILITY IS CONSIDERED A CAPITAL INVESTMENT AND A VERY COSTLY ONE AT TODAYS INTEREST RATES.

2. BEFORE YOU COMMIT YOUR BUSINESS TO AN INCREASED DEBT LIABILITY YOU MUST CAREFULLY PLAN AND TAKE THE NECESSARY STEPS TOWARD THE REORGANIZATION PROCESS. THE GATHERING OF ALL POSSIBLE RELEVANT INFORMATION THAT HAS A BEARING ON THE ABILITY OF YOUR BUSINESS TO REPAY THE DEBT IS ESSENTIAL.

3. PROJECTING POSSIBLE BUSINESS OUTCOMES MUST BE CAREFULLY STUDIED WITH THE ELEMENT OF RISK IN MIND AT ALL TIMES.

4. YOU WILL LIVE WITH A DEBT COMMITMENT FOR A LONG TIME. WHILE IT IS OFTEN NECESSARY TO EXPAND, EXPANSION CAN MEAN DISASTER AS WELL AS SUCCESS.

# APPENDIX H

## GATHERING & ORGANIZING RELEVANT INFORMATION

1. COMPETITIVE SITUATION: HOW DOES YOUR CURRENT LOCATION COMPARE TO A RELOCATION AREA REGARDING YOUR COMPETITORS?

2. MARKET SITUATION: WILL YOU NOW BE COMPETING WITH BIGGER OPERATORS IN SIMILAR BUSINESSES IF YOU EXPAND, OR WILL YOU CONTINUE WITH THE SAME IMAGE?

3. BUILDING COSTS: CONTRUCTION COSTS NEED TO BE COMPARED TO THE OUTRIGHT PURCHASE COST OF THE RELOCATION. (DON'T FORGET TO CHECK OUT LEASE COSTS SO THAT LEASING VERSUS BUYING OR BUILDING CAN BE STUDIED).

4. FINANCE COSTS: WHAT TERMS ARE AVAILABLE FOR THE MONEY YOU NEED TO BORROW, AND WHAT ARE THE AVAILABLE SOURCES?

5. LOAN DISBURSEMENT: HOW WILL YOUR NEW LOAN EFFECT ANY PREVIOUS LOANS YOU NOW HAVE?

6. ADDITIONAL COST OF OWNERSHIP: WHAT WILL HAPPEN TO PROPERTY TAXES, INSURANCE, REPAIRS, UTILITIES, ETC. UNDER EACH OF THE THREE OPPORTUNITIES?

7. TAX BENEFIT: DEPRECIATION EXPENSE MUST BE CALCULATED FOR EACH OPPORTUNITY?

8. LEASE COMPARISONS: EVEN THOUGH YOU PLAN TO BUILD OR BUY, DON'T AVOID GATHERING INFORMATION ABOUT LEASING COMPARABLE SPACE.

9. SALES PROJECTIONS: HOW WILL EACH OF THE THREE OPPORTUNITIES ADD TO YOUR SALES? YOUR DEBT LIABILITY MUST BE PAID FOR THROUGH INCREASED SALES, THUS, THIS QUESTION IS EXTREMELY IMPORTANT.

10. ADDITIONAL SALES COSTS: HOW MANY ADDITIONAL EMPLOYEES WILL BE NEEDED AND WHAT CHANGE IN ADVERTISING WILL OCCUR UNDER EACH OF THE THREE OPPORTUNITIES.

# APPENDIX I

## EVALUATION OF ALTERNATIVES

1. OPPORTUNITY TO ADD-ON TO EXISTING BUILDING.

| ADVANTAGES | DISADVANTAGES |
|---|---|

2. OPPORTUNITY TO BUY AND CONNECT TO ADJOURNING BUSINESS.

| ADVANTAGES | DISADVANTAGES |
|---|---|

3. OPPORTUNITY TO SELL AND RELOCATE IN LARGER BUILDING.

| ADVANTAGES | DISADVANTAGES |
|---|---|

# APPENDIX J

## CONSIDERATIONS FOR BUSINESS EXPANSION

1. INABILITY TO MEET CUSTOMER DEMAND.

2. INEFFICIENT OPERATION DUE TO SIZE AND VOLUME OF PRODUCTION.

3. DEMANDS OF A NEW PRODUCT OR SERVICE LINE.

4. NEW MARKET POTENTIAL SUCH AS A NEW FACTORY IN THE AREA.

5. DESIRE TO EXPAND AND DEVELOP A NEW MARKET AREA.

6. PRESENT VOLUME NOT JUSTIFYING CONTINUED OPERATION.

# APPENDIX K

## Return On Investment (ROI)

$$\text{ROI} = \frac{\text{PROFIT}}{\text{CAPITAL EMPLOYED}}$$

This formula can be reduced to it's basic components:

$$\text{Turnover} = \frac{\text{SALES}}{\text{CAPITAL EMPLOYED}}$$

$$\text{Percent Profit of Sales} = \frac{\text{PROFIT}}{\text{SALES}}$$

Formula Restated:

ROI Rate = Turnover x Percent Profit on Sales

# APPENDIX L

## FORMULAS FOR DETERMINING:

1. WORKING CAPITAL = CURRENT ASSETS - CURRENT LIABILITIES

2. CAPITAL EMPLOYED = FIXED ASSETS + WORKING CAPITAL

3. TURNOVER = SALES ÷ CAPITAL EMPLOYED

4. EXPENSES = MERCHANDISE AND MATERIALS + SELLING EXPENSES + OPERATION AND ADMINISTRATION EXPENSES

5. PROFIT = SALES - EXPENSES

6. EARNING RATIO = PROFIT ÷ SALES

# APPENDIX M

## EVALUATION INSTRUMENT

## MAXIMIZING PROFIT

Name Key

Circle the correct answer for the following mutilple choice questions:

1. When sales continues to climb above the break-even point, profits:

   [✓ a.] Increase at an increasing rate.
   b. Steadily decline until stability is reached.
   c. Climb sharply and then decline at a slow rate.
   d. Relate more to elasticity of demand than sales volume.

2. The increasing rate of profit on sales will drop sharply if:

   a. You are unable to secure major discounts through volume buying.
   b. The rate of profit prior to break-even was less than the rate achieved after break-even.
   c. Variable costs remain constant per unit of sales.
   [✓ d.] There is a marked increased in fixed cost at a given sales volume.

3. The business practice of turning credit accounts receivables over to an outside company is called:

   a. Merchandise credit discounting.
   b. Consumer credit contracting.
   [✓ c.] Factoring.
   d. Credit card financing.

4. Credit Sales enhance total customer sales because:

   [✓ a.] Customers simply tend to buy more when they are able to charge their purchases.
   b. Stores that offer credit charge higher prices.
   c. Customers even out payments and thus can handle larger debt loads.
   d. Sales persons try harder when credit sales are part of their routine sales duties.

5. Elastic demand for a product means that:

   a. Sales of the product can be increased by altering the quality.
   b. When customers have more money they buy more of the product.
   c. The supply is variable.
   [✓ d.] When price is reduced customers tend to buy more of the product.

6. If a product is known to have an inelastic demand, the best strategy for maximizing profit is:

   a. Reducing the price to stimulate sales.
   [✓ b.] Increasing the price.
   c. Offering special promotions to stimulate sales.
   d. Offering credit for the purchase of the product.

7. If expanded capital contribution is a strategy you have chosen for maximizing profit, the use to which expansion capital is put must:

   a. Allow gradual expansion of the business.
   b. Improve the image and prestige of the business.
   c. Return more than the cost of borrowing capital.
   [✓ d.] Return more than other uses which the capital could be assigned.

8. When a business operator uses expansion capital to maximize profit, the primary objective is usually to:

   a. Improve the cost structure of the business.
   b. Generate risk sharing alternatives.
   [✓ c.] Improve the prospects of increasing sales.
   d. Reduce the operators personal risk.

9. The primary disadvantage most business operators list for obtaining expansion capital from outside investors is:

   [✓ a.] Loss of some control over the business.
   b. Necessity to share profits.
   c. Risk involved with unknown investors.
   d. High cost of interest.

10. Business might be expanded through capital acquisition if:

   a. The demand for the products sold or produced was inelastic.
   b. The business operation was highly efficient but business volume was below the break-even point.
   [✓ c.] There was demand for a new product or service.
   d. The fixed costs of the business were too low.

Answer the following questions by circling "T" for true and "F" for false.

11. Prompt, intelligent management decisions concerning expense control can usually be made in the absence of goals, standards or comparable reports. T [✓ F]

12. Expense control can best be effected with the use of current comparable financial reports and a set of goals or standards. [✓ T] F

13. Very small savings in costs per unit become increasingly important as sales volume increases. [✓ T] F

14. All items of expense should be carefully examined for possible reduction as you effect an expense control plan. [✓ T] F

15. Expense control must be accomplished without the competing effect of reducing prices. T [✓ F]

16. The Turnover Ratio is calculated by the following formula: [✓ T] F

$$\text{Turnover} = \frac{\text{Sales}}{\text{Capital Employed}}$$

17. Percent Profit on Sales is an important ratio calculated by the formula: [✓ T] F

$$\text{Percent Profit on Sales} = \frac{\text{Profit}}{\text{Sales}}$$

18. Percent Profit on Sales is a fixed ratio usually not used in effecting profit maximization. T [✓ F]

19. The ROI Ratio - Return on Investment is calculated by the formula: [✓ T] F

$$\text{ROI Rate} = \frac{\text{Profit}}{\text{Capital Employed}}$$

20. ROI Rate is seldom used by business owners to measure maximizing profit efforts. T [✓ F]